



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Liberty Center Local School District  
Henry County  
103 Young Street  
P.O. Box 434  
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Center Local School District, Henry County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Center Local School District, Henry County, Ohio, as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid.

**Mary Taylor, CPA**  
Auditor of State

April 24, 2007

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited**

The discussion and analysis of the financial performance of Liberty Center Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

- In total, net assets increased \$336,466.
- General revenues accounted for \$9,735,661, or 83 percent of all revenues. Program specific revenues in the form of, charges for services, operating and capital grants and contributions accounted for \$2,013,849 or 17 percent of total revenues of \$11,749,510.
- The District's major funds included the General Fund and the Bond Retirement Fund.
- The General Fund had \$10,099,437 in revenues and \$10,114,039 in expenditures. The General Fund's balance decreased \$14,602 from the prior fiscal year. This change is insignificant and an indication that the financial condition of the District has stabilized.
- The Bond Retirement Fund had \$328,819 in revenues and \$317,162 in expenditures. The Bond Retirement Fund's balance increased \$11,657 from the prior fiscal year. The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Fund are the only major funds.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General fund and the Bond Retirement Fund. While the District uses many funds to account for its financial transactions, this General fund is the most significant.

**Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to fiscal year 2005.

<b>Table 1</b>		
<b>Net Assets</b>		
<b>Governmental Activities</b>		
	<b>2006</b>	<b>2005 (As restated)</b>
<b><u>Assets:</u></b>		
Current and Other Assets	\$5,509,845	\$5,288,358
Capital Assets, Net	7,824,502	8,060,008
Total Assets	13,334,347	13,348,366
<b><u>Liabilities:</u></b>		
Current and Other Liabilities	3,654,025	3,792,496
Long-Term Liabilities	3,295,396	3,507,410
Total Liabilities	6,949,421	7,299,906
<b><u>Net Assets:</u></b>		
Invested in Capital Assets, Net of Related Debt	5,451,303	5,340,008
Restricted	512,334	347,992
Unrestricted	421,289	360,460
Total	\$6,384,926	\$6,048,460

The change in net assets from fiscal year 2005 to fiscal year 2006 was positive.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

**Table 2  
Change in Net Assets  
Governmental Activities**

	2006	2005 (As restated)
<b><u>Revenues:</u></b>		
Program Revenues:		
Charges for Services and Sales	\$1,374,180	\$1,168,874
Capital Grants and Contributions	67,220	
Operating Grants, Contributions and Interest	572,449	639,802
Total Program Revenues	2,013,849	1,808,676
General Revenues:		
Property Taxes	3,001,539	2,610,068
Income Taxes	1,113,068	949,394
Grants and Entitlements	5,432,709	5,234,021
Investment Earnings	94,033	51,111
Gifts and Donations	60,518	182,449
Miscellaneous	33,794	76,013
Proceeds from Sale of Capital Assets		850
Total General Revenues	9,735,661	9,103,906
Total Revenues	11,749,510	10,912,582
<b><u>Expenses:</u></b>		
Instruction	6,746,954	6,357,790
Support Services:		
Pupils	666,517	645,926
Instructional Staff	343,627	255,944
Board of Education	46,852	44,697
Administration	713,133	789,733
Fiscal	294,118	273,110
Operation and Maintenance of Plant	837,185	891,188
Pupil Transportation	476,226	497,448
Central	197,549	223,586
Non-Instructional	477,939	450,621
Extracurricular Activities	469,523	449,444
Capital Outlay	18,105	131,449
Interest and Fiscal Charges	125,316	129,179
Total Expenses	11,413,044	11,140,114
Change in Net Assets	\$336,466	(\$227,533)

The increases in program revenue and expenses were a result of an increase in ADM at the residential alternative school for behavioral students for the fiscal year 2006. These students are placed from and funded by other districts throughout the State. The District also saw an increase in property taxes, income taxes and investment earnings, with a decrease in donations.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3  
Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services (As restated)	Net Cost of Services (As restated)
	2006	2006	2005	2005
Instruction	\$6,746,954	\$5,426,498	\$6,357,790	\$5,159,618
Support Services:				
Pupils	666,517	663,285	645,926	640,028
Instructional Staff	343,627	335,198	255,944	245,410
Board of Education	46,852	46,852	44,697	44,697
Administration	713,133	702,389	789,733	778,803
Fiscal	294,118	294,118	273,110	273,110
Operation and Maintenance of Plant	837,185	837,185	891,188	891,188
Pupil Transportation	476,226	423,726	497,448	497,448
Central	197,549	188,549	223,586	214,586
Non-Instructional	477,939	23,430	450,621	32,339
Extracurricular Activities	469,523	314,544	449,444	293,584
Capital Outlay	18,105	18,105	131,449	131,449
Interest and Fiscal Charges	125,316	125,316	129,179	129,179
Total Expenses	<u>\$11,413,044</u>	<u>\$9,399,195</u>	<u>\$11,140,115</u>	<u>\$9,331,439</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 80 percent of instruction activities is supported through taxes and other general revenues. For all governmental activities, support from general revenues is 82 percent. The remaining 18 percent is derived from tuition and fees, specific grants, and donations.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Fund. Total governmental funds had revenues of \$11,557,592 and expenditures of \$11,430,056. The net positive change of \$127,536 in fund balance for the year indicates that the District was able to meet current costs.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

Final expenditures were budgeted at \$10,183,685, while actual expenditures were \$10,100,604. The \$83,081 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the District had \$7,824,502 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

**Debt**

At June 30, 2006, the District had \$2,616,801 in school improvement general obligation bonds for building improvements. The bonds were originally issued in 1994 for a twenty-five year period. In 2003, the bonds were refunded and issued with final maturity on December 1, 2017. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2006, the District's overall legal debt margin was \$6,698,187, with an un-voted debt margin of \$102,147.

For further information regarding the District's debt, see the notes to the basic financial statements.

**Current Issues**

Liberty Center is a small rural community of 6,000 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 48.3 percent of District revenue sources is from local funds, 47.9 percent is from state funds and the remaining 3.8 percent is from federal funds. The total expenditure per pupil was calculated at \$8,353.

The financial position of the District is beginning to improve. For the past three fiscal years the District has been in deficit spending, but has still maintained a healthy ending cash balance. The District has taken measures to change this deficit spending. The District placed an additional ½% income tax issue for operating funds on the November 8, 2006 ballot. This issue failed. The District then began a series of budget reductions, including staff reductions, some taking place in fiscal year 2006 and some to take effect in future years. Altogether the District will be reducing expenditures by \$750,000 per year. The District then placed the income tax issue back on the ballot. This time for ¾% on the May 2, 2006, ballot. This issue passed. This new income tax is for a continuing period of time and will generate approximately \$700,000 annually. However, like all school districts in Ohio, Liberty Center Local School District will be faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the reduction of personal property taxes on business inventory. With the budget reductions and the new income tax revenue the District should be able to maintain fiscal stability into the future even with these challenges at the state level.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited  
(Continued)**

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Carla Rice, Treasurer, Liberty Center Local School District, PO Box 434, Liberty Center, Ohio 43532-0434.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Net Assets  
June 30, 2006**

		<b>Governmental Activities</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$	1,679,654
Materials and Supplies Inventory		41,049
Accrued Interest Receivable		8,416
Accounts Receivable		71,944
Intergovernmental Receivable		20,315
Taxes Receivable		3,094,721
Income Taxes Receivable		475,062
Unamortized Bond Issue Costs		118,684
Capital Assets:		
Non-Depreciable Capital Assets		1,014,877
Depreciable Capital Assets, net		6,809,625
Total Assets		<u>13,334,347</u>
<b>LIABILITIES:</b>		
Accounts Payable		9,389
Accrued Wages and Benefits		919,838
Intergovernmental Payable		205,588
Deferred Revenue		2,519,210
Long-Term Liabilities:		
Due Within One Year		273,287
Due in More Than One Year		3,022,109
Total Liabilities		<u>6,949,421</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt		5,451,303
Restricted for Debt Service		282,792
Restricted for Capital Outlay		158,518
Restricted for Other Purposes		71,024
Unrestricted		421,289
Total Net Assets	\$	<u><u>6,384,926</u></u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2006**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Gains and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 4,511,893	\$ 930,690	\$ 102,578	\$ 14,720
Special	1,745,041		272,468	(3,463,905)
Vocational	152,793			(1,472,573)
Other	337,227			(152,793)
Support Services:				
Pupils	666,517		3,232	(337,227)
Instructional Staff	343,627		8,429	(663,285)
Board of Education	46,852			(335,198)
Administration	713,133	5,744	5,000	(46,852)
Fiscal	294,118			(702,389)
Operation and Maintenance of Plant	837,185			(294,118)
Pupil Transportation	476,226			(837,185)
Central	197,549		9,000	(423,726)
Operation of Non-Instructional Services	477,939	282,767	171,742	(188,549)
Extracurricular Activities	469,523	154,979		(23,430)
Capital Outlay	18,105			(314,544)
Debt Service:				(18,105)
Interest and Fiscal Charges	125,316			(125,316)
Totals	\$ 11,413,044	\$ 1,374,180	\$ 572,449	\$ 67,220
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,565,846
Property Taxes, Levied for Capital Outlay				128,462
Property Taxes, Levied for Debt Service				307,231
Income Taxes				1,113,068
Grants and Entitlements not Restricted to Specific Programs				5,432,709
Gifts and Donations				60,518
Investment Earnings				94,033
Miscellaneous				33,794
Total General Revenues				9,735,661
Change in Net Assets				336,466
Net Assets Beginning of Year				6,048,460
Net Assets End of Year				\$ 6,384,926

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2006**

	<b>General Fund</b>	<b>Bond Retirement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,245,330	\$ 225,768	\$ 208,556	\$ 1,679,654
Materials and Supplies Inventory	19,470		21,579	41,049
Accrued Interest Receivable	8,416			8,416
Accounts Receivable	71,531		413	71,944
Intergovernmental Receivable			20,315	20,315
Taxes Receivable	2,618,642	336,054	140,025	3,094,721
Income Taxes Receivable	475,062			475,062
<b>Total Assets</b>	<b>\$ 4,438,451</b>	<b>\$ 561,822</b>	<b>\$ 390,888</b>	<b>\$ 5,391,161</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	9,389			9,389
Accrued Wages and Benefits	888,609		31,229	919,838
Intergovernmental Payable	191,734		13,854	205,588
Matured Compensated Absences Payable	38,787			38,787
Deferred Revenue	2,402,931	295,551	129,873	2,828,355
	<b>3,531,450</b>	<b>295,551</b>	<b>174,956</b>	<b>4,001,957</b>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	16,920		979	17,899
Reserved for Property Taxes	292,235	40,424	16,844	349,503
Unreserved, Undesignated, Reported in:				
General Fund	597,846			597,846
Special Revenue Funds			63,321	63,321
Debt Service Funds		225,847		225,847
Capital Projects Funds			134,788	134,788
<b>Total Fund Balances</b>	<b>907,001</b>	<b>266,271</b>	<b>215,932</b>	<b>1,389,204</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,438,451</b>	<b>\$ 561,822</b>	<b>\$ 390,888</b>	<b>\$ 5,391,161</b>

See Accompanying Notes to the Basic Financial Statements



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006**

Total Governmental Fund Balances	\$	1,389,204
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		7,824,502
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		309,145
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$ (2,616,801)	
Compensated Absences Payable	<u>(521,124)</u>	
		<u>(3,137,925)</u>
Net Assets of Governmental Activities	\$	<u><u>6,384,926</u></u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 2,404,729	\$ 296,621	\$ 123,592	\$ 2,824,942
Income Tax	1,104,471			1,104,471
Intergovernmental	5,503,868	32,198	529,588	6,065,654
Interest	91,822		2,211	94,033
Tuition and Fees	907,079		518	907,597
Rent	23,611			23,611
Extracurricular Activities			160,205	160,205
Gifts and Donations	52,254		8,264	60,518
Customer Sales and Services			282,767	282,767
Miscellaneous	11,603		22,191	33,794
Total Revenues	<u>10,099,437</u>	<u>328,819</u>	<u>1,129,336</u>	<u>11,557,592</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	4,349,255		48,380	4,397,635
Special	1,583,388		149,215	1,732,603
Vocational	146,797			146,797
Other	323,411			323,411
Support Services:				
Pupils	532,252		117,537	649,789
Instructional Staff	322,695		13,828	336,523
Board of Education	46,852			46,852
Administration	698,545		19,058	717,603
Fiscal	286,263	7,447	3,104	296,814
Operation and Maintenance of Plant	824,473			824,473
Pupil Transportation	550,090			550,090
Central	191,557		9,866	201,423
Operation of Non-Instructional Services			454,808	454,808
Extracurricular Activities	240,356		183,059	423,415
Capital Outlay	18,105			18,105
Debt Service:				
Principal		225,000		225,000
Interest		84,715		84,715
Total Expenditures	<u>10,114,039</u>	<u>317,162</u>	<u>998,855</u>	<u>11,430,056</u>
Excess of Revenues Over (Under) Expenditures	(14,602)	11,657	130,481	127,536
Fund Balance at Beginning of Year	921,603	254,614	85,451	1,261,668
Fund Balance at End of Year	<u>\$ 907,001</u>	<u>\$ 266,271</u>	<u>\$ 215,932</u>	<u>\$ 1,389,204</u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	127,536
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.</p>		
Capital Outlay - Depreciable Capital Assets	\$ 169,858	
Depreciation	<u>(399,782)</u>	(229,924)
<p>The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.</p>		
Loss on Disposal of Capital Assets		(5,582)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	6,724	
Income Taxes	8,597	
Delinquent Property Taxes	<u>176,597</u>	191,918
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.</p>		
		225,000
<p>Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.</p>		
		(40,601)
<p>Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:</p>		
Intergovernmental Payable	68,845	
Compensated Absences Payable	<u>(726)</u>	68,119
Change in Net Assets of Governmental Activities	\$	<u><u>336,466</u></u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over/ (Under)</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 2,210,671	\$ 2,210,671	\$ 2,331,072	\$ 120,401
Income Tax	924,000	924,000	1,035,710	111,710
Intergovernmental	5,435,000	5,435,000	5,503,868	68,868
Interest	75,000	75,000	92,625	17,625
Tuition and Fees	934,300	934,300	852,982	(81,318)
Rent	26,000	26,000	23,611	(2,389)
Gifts and Donations	60,000	60,000	52,254	(7,746)
Miscellaneous	10,000	10,000	7,054	(2,946)
Total Revenues	<u>9,674,971</u>	<u>9,674,971</u>	<u>9,899,176</u>	<u>224,205</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	4,333,830	4,360,330	4,348,117	12,213
Special	1,517,085	1,598,285	1,596,265	2,020
Vocational	146,001	147,251	141,117	6,134
Other	284,230	324,230	319,690	4,540
Support Services:				
Pupils	552,683	535,683	530,001	5,682
Instructional Staff	273,240	315,740	313,578	2,162
Board of Education	52,895	50,895	47,199	3,696
Administration	801,980	713,880	711,046	2,834
Fiscal	272,357	279,457	276,156	3,301
Operation and Maintenance of Plant	863,848	838,348	820,586	17,762
Pupil Transportation	555,600	542,300	534,366	7,934
Central	214,010	207,010	199,076	7,934
Extracurricular Activities	246,245	246,245	239,376	6,869
Capital Outlay	24,031	24,031	24,031	
Total Expenditures	<u>10,138,035</u>	<u>10,183,685</u>	<u>10,100,604</u>	<u>83,081</u>
Excess of Expenditures Over Revenues	<u>(463,064)</u>	<u>(508,714)</u>	<u>(201,428)</u>	<u>307,286</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	1,000	1,000	1,189	189
Refund of Prior Year Expenditures	2,085	2,085	3,398	1,313
Advances In	5,003	5,003	5,003	
Total Other Financing Sources and Uses	<u>8,088</u>	<u>8,088</u>	<u>9,590</u>	<u>1,502</u>
Net Change in Fund Balances	<u>(454,976)</u>	<u>(500,626)</u>	<u>(191,838)</u>	<u>308,788</u>
Fund Balance at Beginning of Year	1,411,760	1,411,760	1,411,760	
Prior Year Encumbrances Appropriated	6,100	6,100	6,100	
Fund Balance at End of Year	<u>\$ 962,884</u>	<u>\$ 917,234</u>	<u>\$ 1,226,022</u>	<u>\$ 308,788</u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>3,089</u>	\$ <u>31,191</u>
Total Assets	<u>3,089</u>	<u>31,191</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies	<u>                    </u>	<u>31,191</u>
Total Liabilities	<u>                    </u>	<u>31,191</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>3,089</u>	<u>                    </u>
Total Net Assets	<u>\$ <u>3,089</u></u>	<u>\$ <u>                    </u></u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006**

	<u>Private Purpose Trust</u>
<b>ADDITIONS:</b>	
Gifts and Donations	\$ 20
Miscellaneous	<u>493</u>
Total Additions	<u>513</u>
<b>DEDUCTIONS:</b>	
Payments in Accordance with Trust Agreements	<u>1,012</u>
Total Deductions	<u>1,012</u>
Change in Net Assets	(499)
Net Assets Beginning of Year	<u>3,588</u>
Net Assets End of Year	<u>\$ 3,089</u>

See Accompanying Notes to the Basic Financial Statements

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Liberty Center Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Liberty Center Local School District is a local school district as defined by §3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's instructional/support facilities staffed by 47 non-certified and 78 certified full-time teaching personnel who provide services to 1,178 students and other community members.

**The Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Liberty Center Public Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Bond Retirement are the only major governmental funds:

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for property tax revenues to pay the principal and related interest on the school improvement bonds.



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships and no interest loans for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for various student-managed activities.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**E. Budgetary Process**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. The Treasurer submits an annual tax budget for the following fiscal year to the School Board by January 15, for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the Council Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following year.
2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2006.
3. By July 1, the annual appropriation resolution is legally enacted by the Board of Education. (State statute permits temporary appropriation to be effective until no later than October 1 of each year.)

Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed appropriations at the legal level of control. The legal level of control has been established by the Board is at the object level for the general fund and the fund level for all other funds.

4. Any revisions that alter the total of any object appropriation for the general fund and any fund appropriation for all other funds must be approved by the Board of Education.

The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

5. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level for general fund and fund level for remaining funds.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year-end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2006, investments were limited to STAR Ohio and certificates of deposits. Certificates of deposit are non-negotiable and are reported at cost, which approximates fair value.

STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2006.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$91,822, which included; \$2,221 from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Inventory**

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

**H. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State to be set aside for capital maintenance.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**I. Capital Assets**

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, and are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, /net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**M. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**N. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**O. Pass-Through Grants**

The Title VI-B and Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

The implementation of GASB Statement No. 42 and GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**B. Restatement of Net Assets**

As further explained in note 14 due to an accounting change there was a change in beginning net assets as follows:

	<b>Governmental Activities</b>
Net Assets, June 30, 2005	\$ 6,129,660
Restatement of Long-Term Liabilities Due in More Than One Year	(81,200)
Restated Net Assets, June 30, 2005	\$ 6,048,460

**4. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING – (Continued)**

<b>Net Change in Fund Balance Major Governmental Fund</b>	
	<b>General</b>
GAAP Basis	(\$14,602)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	575,046
Accrued FY 2006, Not Yet Received in Cash	(770,720)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,076,305)
Accrued FY 2006, Not Yet Paid in Cash	1,108,449
Advances Net	5,003
Encumbrances Outstanding at Year End (Budget Basis)	(18,709)
Budget Basis	(\$191,838)

**5. DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District Treasury. Active monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts. Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS – (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio); and

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

At year end, the District had \$200 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$883,942 of the District's bank balance of \$1,155,078 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of June 30, 2006, the District investments \$683,629 in STAR Ohio

STAR Ohio carries a rating of AAAM by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually.

If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry and Fulton Counties. The County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2006, was \$292,235 in the General Fund, and \$40,424 in the Debt Service Fund, and \$16,844 in the Capital Projects Fund. The amount available as an advance at June 30, 2005, was \$219,641 in the General Fund, \$30,720 in the Debt Service Fund, and \$12,800 in the Capital Projects Fund.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. PROPERTY TAXES – (Continued)**

The assessed values upon which the fiscal year 2006 taxes were collected are:

	<b>2005 Second- Half Collections</b>		<b>2006 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$78,715,430	78%	\$85,626,600	80%
Industrial/Commercial	6,347,960	6%	7,262,570	7%
Public Utility	8,861,660	9%	7,791,390	7%
Tangible Personal	6,658,507	7%	5,830,906	6%
Total Assessed Value	<u>\$100,583,557</u>	<u>100%</u>	<u>\$106,511,466</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$47.60		\$47.60	

**7. INCOME TAX**

In 1995, the voters of the Liberty Center Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2006, the District recorded income tax revenue of \$1,104,471 in the General Fund, of which \$475,062 is recorded as a receivable at June 30, 2006.

**8. RECEIVABLES**

Receivables at June 30, 2006, consisted of property, income tax, accounts (rent and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amount</b>
Governmental Activities	
Food Service	\$13,591
Title I	6,444
Drug Free Schools	229
Miscellaneous Federal	51
Total Intergovernmental Receivables	<u>\$20,315</u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Non Depreciable Capital Assets				
Land	\$1,014,877			\$1,014,877
Depreciable Capital Assets				
Land Improvements	437,337			437,337
Buildings and Building Improvements	10,338,772			10,338,772
Permanent Fixtures	544,083	\$2,042		546,125
Equipment	646,196	19,852	\$(28,841)	637,207
Computers	463,649	22,289	(87,606)	398,332
Musical Instruments	103,642		(4,418)	99,224
Vehicles	1,041,890	125,675	(99,793)	1,067,772
Total Depreciable Capital Assets	<u>13,575,569</u>	<u>169,858</u>	<u>220,658</u>	<u>13,524,769</u>
Less Accumulated Depreciation				
Land Improvements	(87,646)	(21,867)		(109,513)
Buildings and Building Improvements	(4,658,963)	(216,266)		(4,875,229)
Permanent Fixtures	(246,729)	(34,950)		(281,679)
Equipment	(427,553)	(45,697)	26,964	(446,286)
Computers	(393,832)	(19,911)	87,138	(326,605)
Musical Instruments	(70,485)	(2,518)	4,418	(68,585)
Vehicles	(645,230)	(58,573)	96,556	(607,247)
Total Accumulated Depreciation	<u>(6,530,438)</u>	<u>(399,782)</u>	<u>215,076</u>	<u>(6,715,144)</u>
Depreciable Capital Assets, Net	<u>7,045,131</u>	<u>(229,924)</u>	<u>(5,582)</u>	<u>6,809,625</u>
Governmental Activities Capital Assets, Net	<u>\$8,060,008</u>	<u>\$(229,924)</u>	<u>\$(5,582)</u>	<u>\$7,824,502</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$141,369
Special	23,215
Vocational	7,639
Support Services:	
Pupil	14,262
Instructional Staff	8,161
Administration	12,058
Fiscal	2,363
Operation and Maintenance of Plant	27,801
Pupil Transportation	63,628
Central	8,577
Non-Instructional Services	21,419
Extracurricular	69,290
Total Depreciation Expense	<u>\$399,782</u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**10. RISK MANAGEMENT**

**A. Schools of Ohio Risk Sharing Authority**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc. for insurance coverage. Coverages provided are as follows:

Property Insurance	\$24,077,039
Automobile Liability	4,000,000
Error and Omissions	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
Total per Year	6,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. DEFINED PENSION BENEFIT PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$114,964, \$137,875, and \$113,901, respectively; 47.51 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$79,848.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP) and a Combined Plan (CP). The DBP plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DBP into the DCP or the CP.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. DEFINED PENSION BENEFIT PLANS – (Continued)**

This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$537,311, \$596,647, and \$559,593, respectively; 82.93 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$98,788.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount was \$42,332 for fiscal year 2006.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS – (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 the latest information available. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$53,761.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**13. COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law, negotiated agreements, and board policy, and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn no vacation. Twelve month Administrative employees are entitled to vacation based on board policy and individual contracts. Certain employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days for non-union employees and 53 days for certified and classified union employees.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**14. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	<b>Audited Balance at 6/30/05</b>	<b>Adjustments</b>	<b>Restated Balance at 6/30/05</b>
School Improvement Refunding Bonds	\$2,720,000	(\$2,720,000)	
General Obligation School Improvement Refunding Bonds			
Series 2003:			
Current Interest Bonds		2,580,002	\$2,580,002
Capital Appreciation Bonds Principal		139,998	139,998
Capital Appreciation Bonds Accreted Interest		81,200	81,200
Total Series 2003			2,801,200
Compensated Absences	577,634		577,634
Total Government Activities	\$3,297,634		\$3,378,834

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government -Wide Financial Statements:

	<b>Restated Balance at 6/30/05</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance at 6/30/06</b>	<b>Amount Due Within One Year</b>
General Obligation School Improvement Refunding Bonds					
Series 2003:					
Current Interest Bonds	\$2,580,002		(\$225,000)	\$2,355,002	\$225,000
Capital Appreciation Bonds	221,198	\$40,601		261,799	
Total Series 2003	2,801,200	40,601	(225,000)	2,616,801	225,000
Compensated Absences	577,634		(17,723)	559,911	48,287
Total Government Activities	\$3,378,834	\$40,601	(242,723)	3,176,712	\$273,287
Less: Unamortized Deferred Charge on Refunding				(98,076)	
Add: Amortized Premium on Refunding				216,760	
Total on Statement of Net Assets				\$3,295,396	

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**14. LONG-TERM OBLIGATIONS – (Continued)**

Proceeds from the outstanding bonds were used for the purpose of refunding general obligation bonds, dated March 1, 1994, which were issued for the purpose of financing school permanent improvements. The bonds were issued on September 1, 2003. The bonds consisted of \$2,985,000 in Current Interest bonds and \$139,998 in Capital Appreciation bonds.

The Current Interest bonds shall bear interest at the rates per year and will mature in the principal amounts and on the principal payment dates as follows:

<u>Principal Payment Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
December 1, 2006	\$225,000	2.25%
December 1, 2007	230,000	2.50%
December 1, 2008	235,000	3.00%
December 1, 2009	245,000	3.25%
December 1, 2010	250,000	3.50%
December 1, 2013	265,000	4.00%
December 1, 2014	275,000	4.00%
December 1, 2015	275,000	4.10%
December 1, 2016	250,000	4.20%
December 1, 2017	105,000	4.30%

The Current Interest bonds maturing on or after December 1, 2014, are subject to prior optional redemption, by and at the sole option of the Board, either in whole or in part (as selected by the Board and in integral multiples of \$5,000) on any date on or after December 1, 2013, at par, plus interest accrued to the redemption date.

The Capital Appreciation bonds shall be dated the date of their issuance, shall be issued in the principal amounts, shall mature and be payable as to both principal and interest in the maturity amounts on the principal payment dates, and shall bear interest at the compounding rates per year as follows:

<u>Principal Payment Due</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>	<u>Compounded Interest Rate</u>
December 1, 2011	\$75,965	\$265,000	15.777%
December 1, 2012	64,033	260,000	15.777%

The Capital Appreciation bonds are not subject to optional redemption prior to their maturity.

The value of the Capital Appreciation bonds reported at June 30, 2006, was \$261,799. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$121,801 has been included in the value. The bonds are being retired through the Bond Retirement Fund.

The District has defeased a debt issue by placing cash with a trustee in an amount sufficient to pay all debt principal and interest when they come due. The principal amount of the defeased debt outstanding at June 30, 2006, was \$2,745,000. The cash and investments held by the trustee are not included in the District's assets nor are the outstanding bonds included above.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**14. LONG-TERM OBLIGATIONS – (Continued)**

Total expenditures for interest for the above debt for the period ended June 30, 2006, was \$84,715.

The scheduled payments of principal and interest on the general obligation bonds as of June 30, 2006, are as follows:

<u>Year Ending, June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$225,000	\$79,934	\$304,934
2008	230,000	74,528	304,528
2009	235,000	68,127	303,127
2010	245,000	60,621	305,621
2011	250,000	52,265	302,265
2012-2016	1,076,801	454,014	1,530,815
2017-2018	355,000	12,022	367,022
Total	<u>\$2,616,801</u>	<u>\$801,511</u>	<u>\$3,418,312</u>

**15. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Balance as of June 30, 2005	(\$154,099)	
Current Year Set-aside Requirement	168,327	\$168,327
Qualifying Disbursements	(136,551)	(232,446)
Total	<u>(122,323)</u>	<u>(\$64,119)</u>
Set-Aside Balance Carried Forward to FY 2007	<u>(\$122,323)</u>	

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts for the Capital Acquisition are not presented as being carried forward to the next fiscal year.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook and instructional material set-aside requirements.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$52,073. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,500. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**17. GROUP PURCHASING POOLS**

**A. NBEC Employee Insurance Benefits Program**

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$1,070,566. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. NBEC Workers' Compensation Group Rating Plan**

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,013 to the WCGRP to cover the costs of administering the program.

**C. Schools of Ohio Risk Sharing Authority**

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons, which might result in claims being made against members of SORSA, their employees or officers. The District paid \$71,096 for these services to SORSA in fiscal year 2006.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of Superintendents, Treasurers, or Business Managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**18. RELATED ORGANIZATION**

**Liberty Center Public Library**

The Liberty Center Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Liberty Center Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Liberty Center Public Library, Connie Busch, Clerk/Treasurer, at 111 East Street, Liberty Center, Ohio 43532.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**19. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**B. Litigation**

There are currently no matters in litigation with the District as defendant.

**20. SUBSEQUENT EVENTS**

A .75 percent income tax was passed in May 2006. Collection will begin in January 2007. This .75 percent income Tax is in addition to the existing 1 percent.

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Liberty Center Local School District  
Henry County  
103 Young Street  
P. O. Box 434  
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Center Local School District, Henry County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Liberty Center Local School District  
Henry County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid.

**Mary Taylor, CPA**  
Auditor of State

April 24, 2007



**Mary Taylor, CPA**  
Auditor of State

**LIBERTY CENTER LOCAL SCHOOL DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 17, 2007**