



Dave Yost • Auditor of State

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44505

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 Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2010, 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 Local School District, Trumbull County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, 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 January 30, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 30, 2012

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The management's discussion and analysis of the Liberty Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities increased \$229,285 which represents a 16.19% increase from fiscal year 2009.
- General revenues accounted for \$15,467,148 in revenue or 82.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,356,981 or 17.83% of total revenues of \$18,824,129.
- The District had \$18,594,844 in expenses related to governmental activities; only \$3,356,981 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,467,148 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$15,407,017 in revenues and \$15,760,683 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund deficit increased \$353,666 from a deficit of \$2,570,851 to a deficit of \$2,926,898.
- The District's debt service fund had \$642,464 in revenues and \$1,043,831 in expenditures. During fiscal year 2010, the debt service fund's fund balance decreased \$401,367 from \$307,317 to deficit of \$94,050.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net assets* and *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 the next 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 nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are the most significant funds, and the only governmental funds reported as major funds.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Fund

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-55 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 15,291,984	\$ 13,264,257
Capital assets, net	<u>10,917,774</u>	<u>11,480,446</u>
Total assets	<u>26,209,758</u>	<u>24,744,703</u>
<u>Liabilities</u>		
Current liabilities	15,071,415	13,287,981
Long-term liabilities	<u>9,493,188</u>	<u>10,040,852</u>
Total liabilities	<u>24,564,603</u>	<u>23,328,833</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,138,185	4,345,476
Restricted	1,889,909	1,581,988
Unrestricted (deficit)	<u>(4,382,939)</u>	<u>(4,511,594)</u>
Total net assets	<u>\$ 1,645,155</u>	<u>\$ 1,415,870</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$1,645,155.

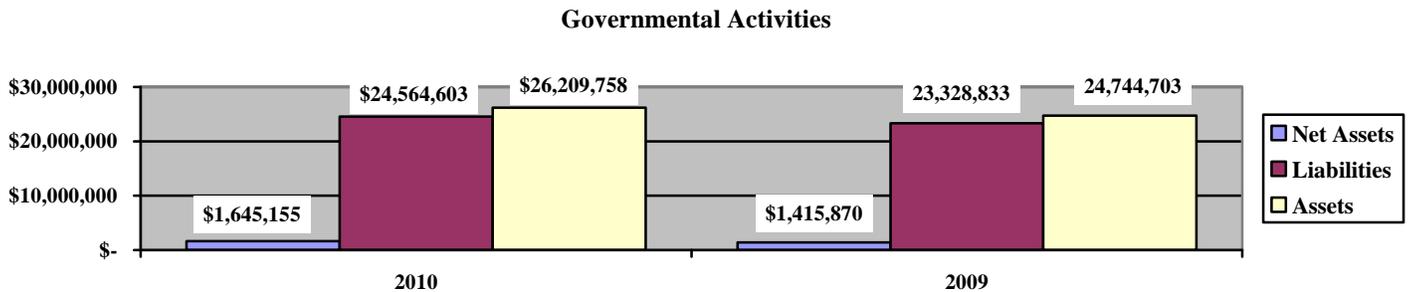
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

At fiscal year-end, capital assets represented 41.66% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$4,138,185. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,889,909, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$4,382,939.

The graph below shows the District's assets, liabilities and net assets at June 30, 2010 and June 30, 2009.



The table below shows the change in net assets for fiscal years 2010 and 2009.

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,135,528	\$ 1,495,866
Operating grants and contributions	2,221,453	2,181,622
Capital grants and contributions	-	20,152
General revenues:		
Property taxes	8,456,563	8,580,580
Grants and entitlements	6,870,988	6,618,896
Investment earnings	9,642	28,974
Other	<u>129,955</u>	<u>184,723</u>
 Total revenues	 <u>18,824,129</u>	 <u>19,110,813</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Expenses</u>		
Program revenues:		
Instruction:		
Regular	\$ 9,860,218	\$ 9,341,319
Special	1,511,220	1,047,355
Vocational	81,199	74,993
Adult	-	1,624
Other	-	61,530
Support services:		
Pupil	641,147	485,598
Instructional staff	499,573	812,715
Board of education	9,873	11,094
Administration	1,168,104	2,219,242
Fiscal	577,752	560,994
Business	626	11,662
Operations and maintenance	1,637,788	1,704,973
Pupil transportation	834,809	967,566
Central	76,692	45,839
Operations of non-instructional services:		
Other non-instructional services	48,253	59,191
Food service operations	634,189	819,346
Extracurricular activities	514,136	534,487
Interest and fiscal charges	499,265	495,428
Total expenses	<u>18,594,844</u>	<u>19,254,956</u>
Changes in net assets	229,285	(144,143)
Net assets at beginning of year	<u>1,415,870</u>	<u>1,560,013</u>
Net assets at end of year	<u><u>\$ 1,645,155</u></u>	<u><u>\$ 1,415,870</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$229,285. Total governmental expenses of \$18,594,844 were offset by program revenues of \$3,356,981 and general revenues of \$15,467,148. Program revenues supported 18.05% of the total governmental expenses.

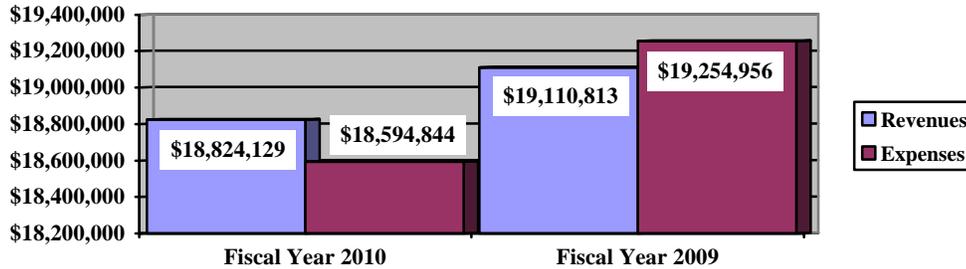
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 81.43% of total governmental revenue. Real estate property is reappraised every six years.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2010 and 2009. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

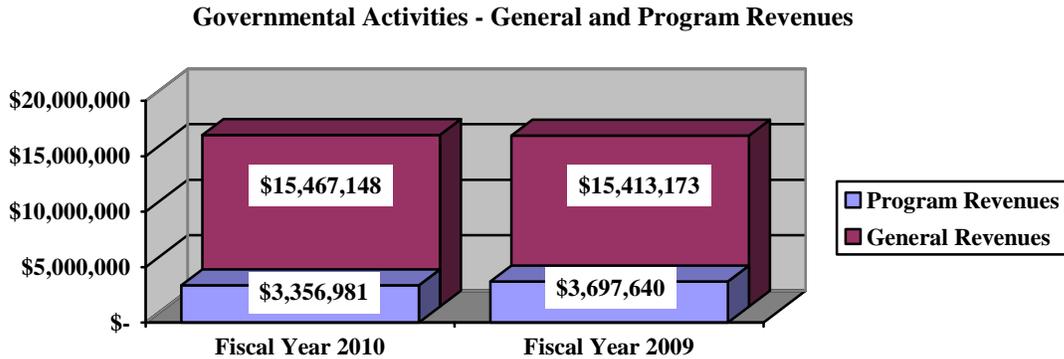
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 9,860,218	\$ 8,767,382	\$ 9,341,319	\$ 8,069,164
Special	1,511,220	642,737	1,047,355	107,708
Vocational	81,199	60,096	74,993	65,852
Adult	-	-	1,624	137
Other	-	-	61,530	61,530
Support services:				
Pupil	641,147	600,389	485,598	469,708
Instructional staff	499,573	212,456	812,715	449,203
Board of education	9,873	9,873	11,094	11,094
Administration	1,168,104	946,332	2,219,242	2,142,329
Fiscal	577,752	572,916	560,994	560,216
Business	626	626	11,662	11,662
Operations and maintenance	1,637,788	1,637,788	1,704,973	1,658,053
Pupil transportation	834,809	833,606	967,566	945,791
Central	76,692	69,833	45,839	36,839
Operations of non-instructional services:				
Other non-instructional services	48,253	47,539	59,191	52,192
Food service operations	634,189	(89,371)	819,346	192
Extracurricular activities	514,136	426,396	534,487	420,218
Interest and fiscal charges	499,265	499,265	495,428	495,428
Total expenses	<u>\$ 18,594,844</u>	<u>\$ 15,237,863</u>	<u>\$ 19,254,956</u>	<u>\$ 15,557,316</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The dependence upon tax and other general revenues for governmental activities is apparent, 82.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.95%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$2,140,518, which is greater than last year's deficit of \$1,627,810. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance (Deficit) <u>June 30, 2009</u>	<u>Increase/(Decrease)</u>
General	\$ (2,926,898)	\$ (2,570,851)	\$ (356,047)
Debt Service	(94,050)	307,317	(401,367)
Other Governmental	<u>880,430</u>	<u>635,724</u>	<u>244,706</u>
Total	<u>\$ (2,140,518)</u>	<u>\$ (1,627,810)</u>	<u>\$ (512,708)</u>

General Fund

The District's general fund deficit increased \$356,047 from a deficit of \$2,570,851 to a deficit of \$2,926,898.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The table that follows assists in illustrating the financial activities and fund balance of the general fund for fiscal years 2010 and 2009.

	2010 <u>Amount</u>	2009 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 7,764,744	\$ 7,614,187	\$ 150,557	1.98 %
Tuition	741,980	961,173	(219,193)	(22.80) %
Earnings on investments	9,642	28,974	(19,332)	(66.72) %
Intergovernmental	6,750,149	6,923,605	(173,456)	(2.51) %
Other revenues	<u>140,502</u>	<u>183,400</u>	<u>(42,898)</u>	(23.39) %
Total	<u>\$ 15,407,017</u>	<u>\$ 15,711,339</u>	<u>\$ (304,322)</u>	(1.94) %
<u>Expenditures</u>				
Instruction	\$ 10,183,927	\$ 9,430,248	\$ 753,679	7.99 %
Support services	4,733,404	6,266,414	(1,533,010)	(24.46) %
Operation of non-instructional services	7,317	45,297	(37,980)	(83.85) %
Extracurricular activities	345,244	361,887	(16,643)	(4.60) %
Debt service	<u>66,421</u>	<u>45,463</u>	<u>20,958</u>	46.10 %
Total	<u>\$ 15,336,313</u>	<u>\$ 16,149,309</u>	<u>\$ (812,996)</u>	(5.03) %

Overall revenues decreased \$304,322 or 1.94%. The decrease in tuition revenue of \$219,193 or 22.80% is primarily due to the decrease of students participating in open enrollment. The decrease in earnings on investment of \$19,332 or 66.72% is due to reduced interest rates on investments. All other revenues remained comparable to fiscal year 2009.

Overall expenditures decreased \$812,996 or 5.03%. This decrease is primarily attributable to a decrease in support services expenditures. Support services expenditures decreased \$1,533,010 or 24.46%. All other expenditures remained comparable to fiscal year 2009.

Debt Service Fund

The District's debt service fund had \$642,464 in revenues and \$1,043,831 in expenditures. During fiscal year 2010, the debt service fund's fund balance decreased \$401,367 from \$307,317 to deficit of \$94,050.

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.

For the general fund, final revenues and other financing sources were \$14,290,013, which was \$2,585,408 more than the original budgeted amounts. Actual revenues and other financing sources for fiscal year 2010 were \$17,214,422. This amount exceeded final budgeted revenues and other financing sources by \$2,924,409.

For the general fund, final budget basis expenditures and other financing uses were \$11,466,133, which was \$15,101 more than the original budgeted amounts. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$16,855,594, which were \$5,389,461 greater than final budgeted expenditures and other financing uses.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$10,917,774 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities.

The following table shows June 30, 2010 balances compared to the balances at June 30, 2009.

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2010</u>	<u>2009</u>
Land	\$ 349,160	\$ 349,160
Land improvements	355,082	410,065
Buildings and improvements	9,424,815	9,770,490
Furniture and equipment	666,869	754,293
Vehicles	99,554	129,112
Textbooks	<u>22,294</u>	<u>67,326</u>
Total	<u>\$ 10,917,774</u>	<u>\$ 11,480,446</u>

The overall decrease in capital assets is due to depreciation expense of \$562,672. There were no capital asset additions or disposals during fiscal year 2010. See Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2010, the District had \$7,904,845 in general obligation bonds outstanding. Of this total, \$665,000 is due within one year and \$7,239,845 is due in greater than one year. The following table summarizes the general obligation bonds at June 30, 2010 and June 30, 2009.

Outstanding Debt, at Year End		
	<u>2010</u>	<u>2009</u>
General obligation bonds	<u>\$7,904,845</u>	<u>\$8,353,662</u>
Total	<u>\$7,904,845</u>	<u>\$8,353,662</u>

At June 30, 2010, the District's overall legal debt margin was \$14,371,362 with an unvoted debt margin of \$232,851. See Note 9 to basic financial statements for additional information on the District's debt administration.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Current Financial Related Activities

The District faces many challenges in the future. The District relies heavily on local property taxes and the scheduled decreases in personal and tangible taxes contribute to the critical need for additional new local funding.

Another challenge facing the District is the completion of the campus atmosphere, starting with the building of the new high school. Currently, all three District buildings rest on the same plot of land. In the future, athletic fields and transportation facilities need to be relocated on the campus to complete the project. The District also faces the challenge of upgrading current facilities such as middle school science labs and band rooms, general building repairs, and storage space. The current permanent improvement levy does not provide enough funding to meet these needs. The Board declared "urgent necessity" for demolition of the old high school with a portion to remain as storage space for the District.

The last major challenge facing the District is the future of State funding. The State was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy). The District was subject to the Ed Choice voucher program in fiscal year 2009, which had a negative impact on the District's enrollment. This caused the District to lose 151 students and function in the amount of \$628,812. Funding losses through the life of the program are expected to total \$8,000,604 by 2021.

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Jim Wilson, Treasurer of Liberty Local School District at 4115 Shady Road, Youngstown, Ohio, 44505-1395.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 2,919,932
Receivables:	
Taxes	11,736,663
Intergovernmental	521,340
Materials and supplies inventory	20,006
Unamortized bond issue costs	94,043
Capital assets:	
Land	349,160
Depreciable capital assets, net.	10,568,614
Capital assets, net	10,917,774
 Total assets.	 26,209,758
 Liabilities:	
Accounts payable.	80,944
Accrued wages and benefits	1,058,288
Pension obligation payable.	348,218
Intergovernmental payable	89,020
Unearned revenue	10,400,350
Accrued interest payable	27,597
Claims payable.	96,798
Notes payable	2,970,200
Long-term liabilities:	
Due within one year.	854,860
Due in more than one year	8,638,328
Total liabilities	24,564,603
 Net Assets:	
Invested in capital assets, net of related debt.	4,138,185
Restricted for:	
Permanent fund - nonexpendable	4,269
Debt service.	46,105
Capital projects	366,605
Locally funded programs	393
State funded programs.	181,695
Federally funded programs	386,441
Public school support	37,934
Student activities	3,166
Other purposes	863,301
Unrestricted (deficit)	(4,382,939)
Total net assets	\$ 1,645,155

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,860,218	\$ 739,929	\$ 352,907	\$ (8,767,382)
Special	1,511,220	-	868,483	(642,737)
Vocational	81,199	12,598	8,505	(60,096)
Support services:				
Pupil	641,147	-	40,758	(600,389)
Instructional staff	499,573	-	287,117	(212,456)
Board of education	9,873	-	-	(9,873)
Administration	1,168,104	67,339	154,433	(946,332)
Fiscal	577,752	-	4,836	(572,916)
Business	626	-	-	(626)
Operations and maintenance	1,637,788	-	-	(1,637,788)
Pupil transportation	834,809	-	1,203	(833,606)
Central	76,692	-	6,859	(69,833)
Operation of non-instructional services:				
Other non-instructional services	48,253	-	714	(47,539)
Food service operations	634,189	227,922	495,638	89,371
Extracurricular activities	514,136	87,740	-	(426,396)
Interest and fiscal charges	499,265	-	-	(499,265)
Total governmental activities	\$ 18,594,844	\$ 1,135,528	\$ 2,221,453	(15,237,863)
General Revenues:				
Property taxes levied for:				
General purposes				7,764,397
Debt service				551,808
Capital outlay				140,358
Grants and entitlements not restricted				
to specific programs				6,870,988
Investment earnings				9,642
Miscellaneous				129,955
Total general revenues				15,467,148
Change in net assets				229,285
Net assets at beginning of year				1,415,870
Net assets at end of year				\$ 1,645,155

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 712,826	\$ -	\$ 1,125,218	\$ 1,838,044
Receivables:				
Taxes.	9,986,035	1,610,538	140,090	11,736,663
Intergovernmental.	-	-	521,340	521,340
Materials and supplies inventory.	12,608	-	7,398	20,006
Due from other funds	114,292	-	-	114,292
Restricted assets:				
Equity in pooled cash and cash equivalents	461,464	-	-	461,464
Total assets	<u>\$ 11,287,225</u>	<u>\$ 1,610,538</u>	<u>\$ 1,794,046</u>	<u>\$ 14,691,809</u>
Liabilities:				
Accounts payable	\$ 60,526	\$ -	\$ 20,418	\$ 80,944
Accrued wages and benefits.	906,170	-	152,118	1,058,288
Early retirement incentive payable	56,250	-	-	56,250
Pension obligation payable	275,027	-	73,191	348,218
Intergovernmental payable	79,123	-	9,897	89,020
Deferred revenue	997,962	163,131	549,051	1,710,144
Accrued interest payable	4,621	-	-	4,621
Due to other funds	-	114,292	-	114,292
Notes payable	2,970,200	-	-	2,970,200
Unearned revenue.	8,864,244	1,427,165	108,941	10,400,350
Total liabilities.	<u>14,214,123</u>	<u>1,704,588</u>	<u>913,616</u>	<u>16,832,327</u>
Fund Balances:				
Reserved for encumbrances	205,984	-	56,279	262,263
Reserved for materials and supplies inventory	12,608	-	7,398	20,006
Reserved for property tax unavailable for appropriation	123,829	20,242	3,438	147,509
Reserved for school bus purchases	39,581	-	-	39,581
Reserved for textbooks/instructional materials	421,883	-	-	421,883
Reserved for debt service	-	-	-	-
Reserved for permanent fund	-	-	4,269	4,269
Unreserved, undesignated (deficit), reported in:				
General fund.	(3,730,783)	-	-	(3,730,783)
Special revenue funds	-	-	480,723	480,723
Capital projects funds	-	-	328,323	328,323
Total fund balances (deficit).	<u>(2,926,898)</u>	<u>(94,050)</u>	<u>880,430</u>	<u>(2,140,518)</u>
Total liabilities and fund balances	<u>\$ 11,287,225</u>	<u>\$ 1,610,538</u>	<u>\$ 1,794,046</u>	<u>\$ 14,691,809</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balance (deficit)		\$	(2,140,518)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			10,917,774
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	1,188,804	
Intergovernmental receivable		<u>521,340</u>	
Total			1,710,144
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			523,626
In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest expenditures are reported when due.			(22,976)
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.			94,043
Unamortized premiums on bond issuances are not recognized in the funds.			(305,989)
Unamortized deferred charges on refundings are not recognized in the funds.			211,942
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(7,904,845)	
Compensated absences payable		<u>(1,438,046)</u>	
Total			<u>(9,342,891)</u>
Net assets of governmental activities		\$	<u><u>1,645,155</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,764,744	\$ 573,652	\$ 129,143	\$ 8,467,539
Tuition.	741,980	-	-	741,980
Charges for services	-	-	227,922	227,922
Earnings on investments	9,642	-	-	9,642
Extracurricular.	-	-	87,740	87,740
Classroom materials and fees	10,547	-	67,339	77,886
Contributions and donations	-	-	5,232	5,232
Other local revenues.	129,955	-	-	129,955
Intergovernmental - state.	6,750,149	68,812	566,991	7,385,952
Intergovernmental - federal.	-	-	1,352,153	1,352,153
Total revenues	<u>15,407,017</u>	<u>642,464</u>	<u>2,436,520</u>	<u>18,486,001</u>
Expenditures:				
Current:				
Instruction:				
Regular.	9,219,772	-	300,040	9,519,812
Special	881,079	-	634,019	1,515,098
Vocational	83,076	-	-	83,076
Support services:				
Pupil	631,472	-	36,448	667,920
Instructional staff	310,806	-	195,840	506,646
Board of education	9,873	-	-	9,873
Administration.	955,888	-	214,422	1,170,310
Fiscal	563,497	-	11,753	575,250
Business.	626	-	-	626
Operations and maintenance.	1,406,746	167,177	30,284	1,604,207
Pupil transportation	793,168	-	12,635	805,803
Central	61,328	-	15,364	76,692
Operation of non-instructional services:				
Operation of non-instructional	7,317	-	8,301	15,618
Food service operations	-	-	637,432	637,432
Extracurricular activities	345,244	-	120,164	465,408
Debt service:				
Principal retirement.	-	655,000	-	655,000
Interest and fiscal charges	66,421	221,654	-	288,075
Total expenditures	<u>15,336,313</u>	<u>1,043,831</u>	<u>2,216,702</u>	<u>18,596,846</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>70,704</u>	<u>(401,367)</u>	<u>219,818</u>	<u>(110,845)</u>
Other financing sources (uses):				
Transfers in.	-	-	24,370	24,370
Transfers (out)	(424,370)	-	-	(424,370)
Total other financing sources (uses)	<u>(424,370)</u>	<u>-</u>	<u>24,370</u>	<u>(400,000)</u>
Net change in fund balances	(353,666)	(401,367)	244,188	(510,845)
Fund balances (deficit) at beginning of year.	(2,570,851)	307,317	635,724	(1,627,810)
Increase (Decrease) in reserve for inventory	(2,381)	-	518	(1,863)
Fund balances (deficit) at end of year	<u>\$ (2,926,898)</u>	<u>\$ (94,050)</u>	<u>\$ 880,430</u>	<u>\$ (2,140,518)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$	(510,845)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
		(562,672)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		
		(1,863)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	\$ (10,976)	
Intergovernmental revenues	349,104	
Total		338,128
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		655,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the following:		
Decrease in accrued interest payable	(5,008)	
Accreted interest on capital appreciation bonds	(206,183)	
Amortization of bond issuance costs	(9,028)	
Amortization of bond premiums	29,375	
Amortization of deferred charges on refundings	(20,346)	
Total		(211,190)
Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(50,368)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.		
		573,095
Change in net assets of governmental activities	\$	229,285

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,639,537	\$ 5,960,046	\$ 7,666,267	\$ 1,706,221
Tuition.	517,113	631,666	741,980	110,314
Earnings on investments	6,630	8,164	9,642	1,478
Classroom materials and fees	7,562	9,312	10,998	1,686
Other local revenues	98,591	121,980	144,600	22,620
Intergovernmental - state	4,646,233	5,721,714	6,757,396	1,035,682
Total revenues	<u>9,915,666</u>	<u>12,452,882</u>	<u>15,330,883</u>	<u>2,878,001</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,791,517	6,729,847	9,630,726	(2,900,879)
Special.	645,112	639,087	919,160	(280,073)
Vocational.	58,571	58,024	83,453	(25,429)
Support services:				
Pupil.	470,909	466,511	670,955	(204,444)
Instructional staff	214,981	212,973	306,306	(93,333)
Board of education	7,619	7,548	10,856	(3,308)
Administration.	708,134	701,520	1,008,955	(307,435)
Fiscal	12,244	-	603,401	(603,401)
Business	445	441	634	(193)
Operations and maintenance.	1,023,492	1,013,933	1,458,279	(444,346)
Pupil transportation	606,743	601,076	864,492	(263,416)
Central.	52,333	51,845	74,565	(22,720)
Operation of non-instructional services	6,996	6,931	9,968	(3,037)
Extracurricular activities.	249,083	246,756	354,895	(108,139)
Debt service:				
Principal	249,297	355,200	355,200	-
Interest and fiscal charges.	55,712	79,379	79,379	-
Total expenditures	<u>11,153,188</u>	<u>11,171,071</u>	<u>16,431,224</u>	<u>(5,260,153)</u>
Excess of revenues over (under) expenditures.	<u>(1,237,522)</u>	<u>1,281,811</u>	<u>(1,100,341)</u>	<u>(2,382,152)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	12,939	61,131	107,539	46,408
Transfers (out).	(297,844)	(295,062)	(424,370)	(129,308)
Sale of notes	1,776,000	1,776,000	1,776,000	-
Total other financing sources (uses)	<u>1,491,095</u>	<u>1,542,069</u>	<u>1,459,169</u>	<u>(82,900)</u>
Net change in fund balance	253,573	2,823,880	358,828	(2,465,052)
Fund balance at beginning of year	297,613	297,613	297,613	-
Prior year encumbrances appropriated	421,480	421,480	421,480	-
Fund balance at end of year	<u>\$ 972,666</u>	<u>\$ 3,542,973</u>	<u>\$ 1,077,921</u>	<u>\$ (2,465,052)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 620,424
Total assets.	<u>620,424</u>
Liabilities:	
Claims payable	<u>96,798</u>
Total liabilities	<u>96,798</u>
Net assets:	
Unrestricted.	<u>523,626</u>
Total net assets	<u><u>\$ 523,626</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,616,346
Total operating revenues	<u>2,616,346</u>
 Operating expenses:	
Claims expense	<u>2,443,251</u>
Total operating expenses.	<u>2,443,251</u>
 Operating income before transfers	173,095
 Transfer in.	<u>400,000</u>
 Change in net assets.	573,095
 Net assets (deficit) at beginning of year .	<u>(49,469)</u>
 Net assets at end of year.	<u>\$ 523,626</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services.	\$ 2,616,767
Cash payments for claims and administrative services	<u>(2,438,504)</u>
Net cash provided by operating activities	<u>178,263</u>
Cash flows from noncapital financing activities:	
Cash received from transfers in	<u>400,000</u>
Net cash provided by noncapital financing activities.	<u>400,000</u>
Net increase in cash and cash equivalents	578,263
Cash and cash equivalents at beginning of year.	<u>42,161</u>
Cash and cash equivalents at end of year	<u><u>\$ 620,424</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 173,095
Changes in assets and liabilities:	
Decrease in accounts receivable	421
Increase in claims payable	<u>4,747</u>
Net cash provided by operating activities	<u><u>\$ 178,263</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 48,215
Total assets.	\$ 48,215
Liabilities:	
Accounts payable.	\$ 288
Intergovernmental payable	4
Due to students.	47,923
Total liabilities	\$ 48,215

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Liberty Local School (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. The District is a school district as defined by 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 District is located in Northeast Ohio, in Trumbull County, in the greater metropolitan Youngstown area.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District is the 363rd largest by enrollment among the 905 public school districts in the State. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 97 non-certified and 171 certified personnel to provide services to approximately 1,493 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

RELATED ORGANIZATION

Liberty Early Academic Resource Nest (LEARN)

LEARN is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. LEARN is a conversion school sponsored by Liberty Local School District with an objective to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in grades kindergarten through grade 3. Liberty Local School District appoints a voting majority Board of Trustees. The Board of Trustees may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. Separately issued financial statements can be obtained from the Treasurer of LEARN at 4115 Shady Road, Youngstown, Ohio 44505-1353.

JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county who must be employed by a participating school district, the fiscal agent or NEOMIN. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following are the District's 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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bonds and notes principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) grants and other resources whose use is restricted to a particular purpose and (c) fund food service operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

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 therefore not available to support the District's own programs. The District has no private-purpose trust funds. 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 student activities.

C. Basis of Presentation and Measurement Focus

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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.

Fund Financial Statements - Fund financial statements report detailed information about the District. 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 and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the claims expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenues - Exchange and Nonexchange 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected 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. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as deferred revenue.

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 LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Trumbull County Budget Commission for rate determination.

Estimated Resources:

By 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 July 1, the District must revise its budget so that 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. 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 in the budgetary statements reflect the amounts in the original and final amended certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the fund level. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Any revisions that alter the fund level must be approved by the Board of Education.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Board may pass supplemental fund appropriations so long as the total appropriations by fund type do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2010. 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 shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$9,642, which includes \$6,851 assigned from other District funds.

For presentation on the basic 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 are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their fair market value. Inventories are recorded on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years
Textbooks	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". The District had no interfund loans outstanding at June 30, 2010. Receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. All employees with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are defined and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.A.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, early retirement incentives and compensated absences 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. Bonds are recognized as a liability on the fund financial statements when due.

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, materials and supplies inventory, property taxes unavailable for appropriation, school bus purchases, textbooks/instructional materials, debt service and permanent fund. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee benefits self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist of amounts restricted for school bus purchases, textbooks/instructional materials, food service operations and special trusts.

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Estimates

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

Q. 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 governments or imposed by enabling legislation. Restricted assets include the amount received for school bus purchases and textbook/instructional supplies. See Note 17 for details.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

S. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2010 included the following individual fund deficits:

	Deficit
<u>Major governmental fund</u>	
General	\$ 2,926,898
Debt service	94,050
<u>Nonmajor governmental funds</u>	
Management information systems	75
Poverty aid	8,822
Title VI-B	65,578
School improvement stimulus A	4,693
Title I, disadvantaged children	50,366

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities. The deficit balance in the general fund will be eliminated by resources not recognized or recorded at fiscal year end.

C. Compliance

1. The District failed to file an amended certificate of estimated resources and all three appropriation measures passed for fiscal year 2010 with the County contrary to Ohio Revised Code Sections 5705.36(A)(3) and 5705.39.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

2. The District failed to prepare or sign a 412 certificate at the time of the initial appropriation and any subsequent appropriation measures for the collective bargaining contract with the Liberty Association of School Employees for the period beginning July 1, 2009 through June 30, 2010 contrary to Ohio Revised Code Sections 5705.412.
3. The District had appropriations greater than estimated resources contrary to Ohio Revised Code Sections 5705.39.
4. The District had negative cash fund balances contrary to Ohio Revised Code Section 5705.10.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 of Education 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 deposits are deposits of interim monies. 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and 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;

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items 1 and 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$2,960,232. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$2,898,983 of the District's bank balance of \$3,148,983 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 7,915	\$ 7,915
Total	<u>\$ 7,915</u>	<u>\$ 7,915</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 7,915	100.00%
Total	<u>\$ 7,915</u>	<u>100.00%</u>

**LIBERTY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,960,232
Investments	<u>7,915</u>
Total	<u>\$ 2,968,147</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,919,932
Agency fund	<u>48,215</u>
Total	<u>\$ 2,968,147</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfers from the general fund to:	
Nonmajor governmental fund	\$ 24,370
Internal service fund	<u>400,000</u>
Total	<u>\$ 424,370</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental activities have been eliminated for reporting in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances consisted of the following at June 30, 2011, as reported as due to/from other funds on the governmental fund statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Debt service	<u>\$ 114,292</u>

The primary purpose of the interfund balances is to cover negative cash balances in the governmental funds. These negative balances are allowable under Ohio Revised Code Section 3315.20. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$123,829 in the general fund, \$20,242 in the debt service fund and \$3,438 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$25,352 in the general fund, \$4,698 in the debt service fund and \$419 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 226,728,180	96.34	\$ 227,940,410	97.54
Public utility personal	4,778,850	2.03	4,947,040	2.12
Tangible personal property	<u>3,839,110</u>	<u>1.63</u>	<u>794,620</u>	<u>0.34</u>
Total	<u>\$ 235,346,140</u>	<u>100.00</u>	<u>\$ 233,682,070</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$50.90		\$50.95	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. 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 receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 11,736,663
Intergovernmental	<u>521,340</u>
Total	<u>\$ 12,258,003</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 8 - CAPITAL ASSETS

Capital assets of the governmental for fiscal year 2010, is as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 349,160	\$ -	\$ -	\$ 349,160
Total capital assets, not being depreciated	<u>349,160</u>	<u>-</u>	<u>-</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,328,044	-	-	1,328,044
Buildings and improvements	16,578,418	-	-	16,578,418
Furniture and equipment	1,811,103	-	-	1,811,103
Vehicles	1,076,837	-	-	1,076,837
Textbooks	911,660	-	-	911,660
Total capital assets, being depreciated	<u>21,706,062</u>	<u>-</u>	<u>-</u>	<u>21,706,062</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(917,979)	(54,983)	-	(972,962)
Buildings and improvements	(6,807,928)	(345,675)	-	(7,153,603)
Furniture and equipment	(1,056,810)	(87,424)	-	(1,144,234)
Vehicles	(947,725)	(29,558)	-	(977,283)
Textbooks	(844,334)	(45,032)	-	(889,366)
Total accumulated depreciation	<u>(10,574,776)</u>	<u>(562,672)</u>	<u>-</u>	<u>(11,137,448)</u>
Governmental activities capital assets, net	<u>\$ 11,480,446</u>	<u>\$ (562,672)</u>	<u>\$ -</u>	<u>\$ 10,917,774</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 417,896
<u>Support services:</u>	
Operations and maintenance	29,146
Pupil transportation	34,267
Operation of non-instructional	32,635
Extracurricular activities	<u>48,728</u>
Total depreciation expense	<u>\$ 562,672</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance <u>06/30/09</u>	Additions	Reductions	Balance <u>06/30/10</u>	Amounts Due in <u>One Year</u>
General obligation bonds	\$ 8,353,662	\$ 206,183	\$ (655,000)	\$ 7,904,845	\$ 665,000
Early retirement incentive	112,500	-	(56,250)	56,250	56,250
Compensated absences	<u>1,471,614</u>	<u>189,919</u>	<u>(223,487)</u>	<u>1,438,046</u>	<u>133,610</u>
Total	<u>\$ 9,937,776</u>	<u>\$ 396,102</u>	<u>\$ (934,737)</u>	9,399,141	<u>\$ 854,860</u>
Less: Unamortized deferred charge on refunding				(211,942)	
Add: Unamortized premium on refunding				<u>305,989</u>	
Total on statement of net assets				<u>\$ 9,493,188</u>	

Early Retirement Incentive: The District has offered an early retirement incentive (ERI) to non-certified staff and certified teaching staff. A liability for severance payments due under the ERI has been recorded on the fund financial statements, in the general fund, as early retirement incentive payable to the extent the liability is expected to be liquidated with expendable available resources. A liability for severance payments due under the ERI has been recorded on the statement of net assets as a long-term liability if the liability is not expected to be liquidated with expendable available resources. See Note 11.B for detail.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District, is primarily the general fund.

B. On November 20, 1997, the District issued general obligation bonds to provide funds for the construction of a new high school. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.60 mil bonded debt tax levy.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The issue is comprised of both current interest bonds, par value \$9,930,000, and capital appreciation bonds, par value \$1,269,918. In fiscal year 2006, the District refunded \$6,335,000, which is the callable portion of the current interest bonds. The District made the final payment on the noncallable portion of the bonds in fiscal year 2008. In fiscal year 2010, capital appreciation bonds of \$266,352 matured with a total accreted interest of \$308,648. The outstanding portion of the issue consists of capital appreciation bonds, par value \$725,548. The remaining capital appreciation bonds mature on December 1, 2010, December 1, 2011 and December 1, 2012 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the remaining capital appreciation bonds is \$1,800,000. Total accreted interest of \$908,392 has been included on the statement of net assets at June 30, 2010.

The following is a schedule of activity for fiscal year 2010 on the 1997 series general obligation bonds:

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
General obligation bonds - series 1997:					
Capital appreciation bonds	\$ 991,900	\$ -	\$ (266,352)	\$ 725,548	\$ 252,591
Accreted interest	<u>1,096,930</u>	<u>120,110</u>	<u>(308,648)</u>	<u>908,392</u>	<u>332,409</u>
Total G.O. bonds - series 1997	<u>\$ 2,088,830</u>	<u>\$ 120,110</u>	<u>\$ (575,000)</u>	<u>\$ 1,633,940</u>	<u>\$ 585,000</u>

The following is a summary of the future debt service requirements to maturity for the 1997 series general obligation bonds:

Fiscal Year <u>Ending June 30,</u>	<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 252,591	\$ 332,409	\$ 585,000
2012	242,898	357,102	600,000
2013	<u>230,059</u>	<u>384,941</u>	<u>615,000</u>
Total	<u>\$ 725,548</u>	<u>\$ 1,074,452</u>	<u>\$ 1,800,000</u>

- C. On March 30, 2006, the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund the callable portion of the Series 1997 Current Interest General Obligation Bonds (callable principal \$6,335,000). The issuance proceeds of \$6,633,414 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The refunding issue is comprised of both current interest bonds, par value \$5,690,000 and capital appreciation bonds, par value \$644,994. The capital appreciation bonds mature December 1, 2014 and December 1, 2015 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,530,000. Total accreted interest of \$310,911 has been included on the statement of net assets at June 30, 2010.

The following is a schedule of activity for fiscal year 2010 on the 2006 series refunding bonds:

	Balance Outstanding			Balance Outstanding			Amounts Due in
	<u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/10</u>	<u>One Year</u>		
Refunding bonds - series 2006:							
Current interest bonds	\$ 5,395,000	\$ -	\$ (80,000)	\$ 5,315,000	\$ 80,000		
Capital appreciation bonds	644,994	-	-	644,994	-		
Accreted interest	<u>224,838</u>	<u>86,073</u>	<u>-</u>	<u>310,911</u>	<u>-</u>		
Total refunding bonds - series 2006	<u>\$ 6,264,832</u>	<u>\$ 86,073</u>	<u>\$ (80,000)</u>	<u>\$ 6,270,905</u>	<u>\$ 80,000</u>		

The reacquisition price exceeded the net carrying amount of the old debt by \$298,414. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Fiscal Year Ending June 30,	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 80,000	\$ 220,254	\$ 300,254	\$ -	\$ -	\$ -
2012	85,000	217,354	302,354	-	-	-
2013	90,000	214,273	304,273	-	-	-
2014	715,000	210,897	925,897	-	-	-
2015	-	175,147	175,147	339,801	430,199	770,000
2016 - 2020	3,465,000	677,137	4,142,137	305,193	454,807	760,000
2021	<u>880,000</u>	<u>36,080</u>	<u>916,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,315,000</u>	<u>\$ 1,751,142</u>	<u>\$ 7,066,142</u>	<u>\$ 644,994</u>	<u>\$ 885,006</u>	<u>\$ 1,530,000</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$14,371,362 (including available funds of \$100,288) and an unvoted debt margin of \$232,851.

NOTE 10 - NOTES PAYABLE

The District issued tax anticipation notes on June 16, 2005 in the amount of \$1,776,000, on February 12, 2009 in the amount of \$839,000 and on June 29, 2010 in the amount of 1,776,000. These notes were issued in anticipation of future tax revenue and the proceeds are used for general operations of the District. As such, the tax anticipation notes are reported as a liability of the general fund, the fund which received the proceeds.

The June 16, 2005 tax anticipation notes in the amount of \$1,776,000 mature on December 10, 2010 and bear an interest rate of 3.47%. The February 12, 2009 tax anticipation notes in the amount of \$839,000 mature on December 1, 2014 and bear an interest rate of 4.90%. The June 29, 2010 tax anticipation notes in the amount of \$1,776,000 mature on December 1, 2015 and bear an interest rate of 3.40%. These notes are backed by the full faith and credit of the District. During fiscal year 2010, the District made \$355,200 in principal and \$79,379 in interest payments out of the general fund.

The following is a schedule of activity for fiscal year 2010 on the tax anticipation notes:

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Tax anticipation note - 3.47%	\$ 710,400	\$ -	\$ (355,200)	\$ 355,200	\$ 355,200
Tax anticipation note - 4.90%	839,000	-	-	839,000	167,800
Tax anticipation note - 3.40%	<u>-</u>	<u>1,776,000</u>	<u>-</u>	<u>1,776,000</u>	<u>-</u>
Total tax anticipation notes	<u>\$ 1,549,400</u>	<u>\$ 1,776,000</u>	<u>\$ (355,200)</u>	<u>\$ 2,970,200</u>	<u>\$ 523,000</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 10 - NOTES PAYABLE - (Continued)

The following is a summary of the future debt service requirements to maturity for the tax anticipation notes:

Fiscal Year <u>Ending June 30.</u>	<u>Tax Anticipation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 523,000	\$ 98,850	\$ 621,850
2012	523,000	83,124	606,124
2013	523,000	62,825	585,825
2014	523,000	42,525	565,525
2015	523,000	22,226	545,226
2016	<u>355,200</u>	<u>6,038</u>	<u>361,238</u>
Total	<u>\$ 2,970,200</u>	<u>\$ 315,588</u>	<u>\$ 3,285,788</u>

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

B. Early Retirement Incentive - STRS Ohio

The District provides an early retirement incentive plan for State Teachers Retirement System of Ohio (STRS Ohio) employees who are eligible for retirement under STRS Ohio guidelines and provide a written notification of the intent to retire by June 15, 2009 with an effective date following the conclusion of fiscal year 2009. The amount of the early retirement incentive is not to exceed \$22,500. Payments are made in two equal installments in January 2010 and January 2011. During fiscal year 2010, six employees took advantage of the early retirement incentive.

C. Early Retirement Incentive - SERS

The District provides an early retirement incentive plan for School Employee Retirement System (SERS) employees who are eligible for retirement under SERS guidelines and provide a written notification of the intent to retire by June 15, 2009 with an effective date following the conclusion of fiscal year 2009. The amount of the early retirement incentive is not to exceed \$5,000. Payments are made in two equal installments in January 2010 and January 2011. During fiscal year 2010, none of the District's employees took advantage of the early retirement incentive.

**LIBERTY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

D. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$50,000 to certified and classified employees.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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 maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, and general liability.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$40,733,745.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2009.

B. Health Self Insurance

The District has elected to provide employee medical/surgical benefits through a self-insured program. The District maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss of this program. A third-party administrator, Professional Benefits Administrators, Inc., reviewed and paid all claims for the period July 1, 2008 through March 31, 2009. Effective April 1, 2009, Anthem Insurance Companies, Inc. became the District's third-party administrator. The District pays into the self-insurance internal service fund a premium that is paid by the fund that pays the salary for the employee and is based on historical cost information.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$96,798 reported in the internal service fund at June 30, 2010 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal year 2010 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2010	\$ 92,051	\$ 2,443,251	\$ (2,438,504)	\$ 96,798
2009	356,995	2,843,597	(3,108,541)	92,051

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services).

C. Workers' Compensation

Workers' compensation coverage is provided by the State of Ohio. The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**LIBERTY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District 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 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$255,284, \$187,075 and \$184,053, respectively; 46.32 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan 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 DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$821,537, \$862,484 and \$883,542, respectively; 83.09 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$28,595 made by the District and \$20,425 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$41,407, \$117,770 and \$124,971, respectively; 46.32 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$15,181, \$15,435 and \$13,261 respectively; 46.32 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$63,195, \$66,345 and \$67,965, respectively; 83.09 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The statement of revenue, 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 358,828
Net adjustment for revenue accruals	76,134
Net adjustment for expenditure accruals	884,250
Net adjustment for other sources/uses	(1,883,539)
Adjustment for encumbrances	210,661
GAAP basis	\$ (353,666)

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY 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 supplies and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
CONTINUED

NOTE 17 - STATUTORY RESERVES - (Continued)

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

	Textbooks/ Instructional <u>Supplies</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2009	\$ 275,769	\$ -
Current year set-aside requirement	259,797	259,797
Current year offsets	-	(245,873)
Qualifying disbursements	<u>(113,683)</u>	<u>(348,010)</u>
Total	<u>\$ 421,883</u>	<u>\$ (334,086)</u>
Balance carried forward to fiscal year 2011	<u>\$ 421,883</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve. This extra amount may not be used to reduce the set-aside requirement for future years.

In addition to the above statutory reserves, the District has \$39,581 in cash restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Restricted for school bus purchases	\$ 39,581
Restricted for textbooks/instructional supplies	<u>421,883</u>
Total restricted assets	<u>\$ 461,464</u>

NOTE 18 - FISCAL EMERGENCY

On July 11, 2011, the Auditor of State declared the District to be in a state of Fiscal Emergency under Section 3316.03(B)(2) of the Ohio Revised Code. Due to the District being in fiscal emergency the State Controlling Board has approved an advance payment of more than \$1.9 million during fiscal year 2012 to help the District pay its bills. The funding comes from the State's school-district solvency assistance fund, which is used to assist schools districts that cannot meet their financial obligations due to fiscal emergencies.

NOTE 19 - SUBSEQUENT EVENT

On September 6, 2011 the Board of Education voted to settle financially with its two community schools, Liberty Exemplary Academic Design (LEAD) and Liberty Early Academic Resource Nest (LEARN). The Settlement included a payment of \$250,000 to the District from the community schools which was due September 7, 2011 and an additional payment of \$100,000 within fiscal year 2012 for the use of the District's buildings. The District also withdrew sponsorship as part of the settlement, relieving the District of State mandated closing obligation.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010

GRANT TITLE	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through Ohio Department of Education:					
National School Breakfast Program	10.553	120,769		120,769	
National School Lunch Program	10.555	328,124	38,087	328,124	38,087
Total U.S. Department of Agriculture		448,893	38,087	448,893	38,087
U.S. DEPARTMENT OF EDUCATION					
Passed Through Ohio Department of Education:					
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010			51,746	
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	216,982		259,218	
Title I Grants To Local Educational Agencies - ARRA	84.389	27,341		25,577	
Total Title I Grants to Local Educational Agencies		244,323		336,541	
Special Education Cluster					
Special education grants to States	84.027			5,000	
Special education grants to States	84.027			76,970	
Special education grants to States	84.027	209,555		161,619	
Special Education—Grants to States (Idea, Part B), ARRA	84.391	91,468		89,091	
Total Special Education Cluster		301,023		332,680	
Safe and Drug-Free School and Communities	84.186	5,961		5,373	
Education Technology State Grant	84.318	3,816		3,510	
Improving Teacher Quality State Program	84.367	50,232		35,387	
Improving Teacher Quality State Program	84.367	50,232		5,081	
Total Improving Teacher Quality State Program		50,232		40,468	
State Fiscal Stabilization Fund	84.394	347,990		310,815	
Total U.S. Department of Education		953,345	0	1,029,387	0
Total		1,402,238	38,087	1,478,280	38,087

The accompanying notes to this schedule are an integral part of this schedule.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Liberty Local School District's (the District) federal award programs receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Government assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

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Dave Yost • Auditor of State

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

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44505

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 Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2012. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001, 2010-002, 2010-005, 2010-008, and 2010-009 described in the accompanying schedule of findings to be 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-007.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 30, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 30, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44505

To the Board of Education:

Compliance

We have audited the compliance of Liberty Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Liberty Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of finding identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in finding 2010-10 in the accompanying schedule of findings, the District did not comply with requirements regarding cash management provisions applicable to its State Fiscal Stabilization Fund major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Liberty Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2010-010 to be a material weakness.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 30, 2012

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I (84.010 and 84.389) Special Education Cluster (84.027 and 84.391) State Fiscal Stabilization Fund (84.394)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER - 2010-001

1. Expenditures Exceeded Appropriations due to Failure to File Documents with the County

Noncompliance And Material Weakness

Ohio Revised Code Section 5705.36(A)(3) states that upon determination by the fiscal officer that the revenue to be collected will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess.

Ohio Revised Code Section 5705.39 states that no appropriation measure shall become effective until the county auditor files with the appropriating authority and in the case of a school district, also files with the superintendent of public instruction, a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. **Ohio Revised Code Section 5705.40** states that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation and that no appropriation for any purpose shall be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation.

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to make any expenditure of money unless it has been appropriated.

The District failed to file, with the county auditor, an amended certificate of estimated resources and all three appropriation measures passed for fiscal year 2010, although they were passed by resolutions by the Board of Education.

As a result, the District's appropriations never became effective. Therefore, all expenditures in all funds exceeded appropriations during fiscal year 2010.

In regards to the appropriation measures passed by the Board but not filed with the County, we noted appropriations exceeding total estimated resources at June 30, 2010 as follows:

Fund	Estimated Resources	Appropriations	Difference
516	\$333,832	\$646,624	(\$312,792)
572	\$350,060	\$468,890	(\$118,830)

Appropriations greater than estimated resources can result in fund balance deficits.

The District should ensure that all documents required by the County are filed as directed by the code sections above. In addition, the District should monitor appropriations to ensure they do not exceed the Total Amount of Available Resources, in any given fund.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

**FINDING NUMBER - 2010-001
(Continued)**

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-002

2. Budget Amounts Not Entered Into Accounting System

Noncompliance And Material Weakness

Ohio Administrative Code 117-2-02 (C) states that all local public offices may integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates.

At the District, the budgeted receipts were not entered accurately into the computer accounting system. The budgeted figures entered into the computer accounting system should agree to the Final Certificate of Estimated Resources certified by the County Budget Commission, and the appropriations passed by the Board of Education. The total budgeted revenues on the REVSUM report for all funds were \$4,038. The revenues according to the June 2009 Amended Official Certificate of Estimated Revenues was \$21,602,469.

If the budgeted revenues figures that are entered into the computer system do not agree to the actual revenues that the District has, the District could fail to monitor its available funds.

We recommend that all budgetary information certified by the County Budget Commission or approved by Board be timely and accurately entered into the computer system.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-003

3. Timely Filing

Noncompliance

Ohio Administrative Code Section 117-2-03(B) requires GAAP basis entities to file their report within 150 days of year end.

**FINDING NUMBER - 2010-003
(Continued)**

The District lacks controls over timely and accurate financial reports. The District consults with a firm to assist in compiling its annual GAAP financial statements; however, the final documentation to complete the process was not provided to the firm until June 2011 which is beyond the deadline for filing the financial report with the Auditor of State's Office. The District's management is ultimately responsible for the financial report.

While there were delays in both filing the annual GAAP report and completing the annual audit due to numerous circumstances, timely financial reports is essential to the operation of the District to help ensure complete and accurate data is being provided to the District's citizens.

We recommend the District's management take a more active role in overseeing the financial reporting process. We further recommend that they evaluate the steps necessary to ensure financial reports are issued in a timely manner. This will help ensure that reports are submitted as required.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-004

4. Lack Of 412 Certificate

Noncompliance

Ohio Revised Code Section 5705.412 requires that a certificate signed pursuant to this section must be attached to all appropriation measures, qualifying contracts, and increases during a school year of any wage or salary schedule. Such certificate must certify that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other available sources, are sufficient to provide the operating revenues necessary to enable the district to maintain all personnel and programs for all the days set forth in the adopted school calendars for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year. A certificate attached to any qualifying contract is required to cover the term of the contract. A certificate signed pursuant to this section is required to be signed by the treasurer, superintendent and president of the board of education.

This section of code further states the Auditor of State is responsible for determining compliance with this section. Where it is determined that a school district has not complied with this section, the Auditor of State shall notify the prosecuting attorney for the county, the city director of law, or other chief law officer of the school district.

The Liberty Local School District failed to prepare or sign any such certificate for the three appropriation measures passed by the Board during fiscal year 2011.

The above stated matter will be referred to the Trumbull County Prosecutor.

**FINDING NUMBER - 2010-004
(Continued)**

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-005

5. Failure of Treasurer To Perform Duties

Noncompliance And Material Weakness

Ohio Revised Code Section 3313.29 states the treasurer of each board of education shall keep an account of all school funds of the District. The treasurer shall receive all vouchers for payments and disbursements made to and by the board. Additionally, the treasurer shall render a statement to the board and to the superintendent of the school district, monthly, or more often if required, showing the revenues and receipts from whatever sources derived, the various appropriations made by the board, the expenditures and disbursements there from, the purposes thereof, the balances remaining in each appropriation, and the assets and liabilities of the school district. At the end of the fiscal year such statement shall be a complete exhibit of the financial affairs of the school district which may be published and distributed with the approval of the board. All monthly and yearly statements as required in this section shall be available for examination by the public. In addition, **Ohio Revised Code Section 3313.26** states the treasurer of the board of education shall record the proceedings of each meeting in a book to be provided by the board for that purpose, which shall be a public record.

During the course of the audit, we noted the former Treasurer failed to perform the following duties:

- The Treasurer did not perform monthly bank to book reconciliations of the District's accounting records during 2010.
- The Treasurer did not prepare and/or submit a GAAP financial report for 2010 as required by Ohio Revised Code Section 117.38. The District was required to hire an accounting firm to complete the GAAP financial report after termination of the Treasurer.
- The Treasurer made a \$400,000 transfer from the general fund to the District's self insurance fund without Board approval contrary to Ohio Revised Code Section 5705.14..
- Medicare tax was not withheld from nor paid by the District for one District employee from 2004-2010 as required by Code of Federal Regulations 26 USC § 3102 (a).
- The Treasurer did not report any ARRA funds on the AOS Stimulus Tracker on the AOS website.
- The District incurred a late fee from a bank because a debt payment was not paid on time.
- Interest revenue was not allocated to the District's food service fund contrary to 7 CFR 210.2 and 210.14 (a).
- Budgetary balances (estimated resources and appropriations) were not entered into the accounting system correctly.
- Budgetary documents (amended certificate of estimated resources and all appropriation measures) were not filed with the County.
- Board meeting minutes were not maintained.

**FINDING NUMBER - 2010-005
(Continued)**

Failure to perform these duties resulted in increased audit time and costs to the District.

Official's Response: The District did not provide any formal written response, but did address how the finding will be corrected in the Corrective Action Plan.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-006

6. Finding Against Treasurer

Noncompliance- Finding For Recovery

The Liberty Local School District entered into an agreement with the Liberty Early Academic Resource Nest (LEARN), a community school located within the District, for the District Treasurer to act as the fiscal officer of LEARN. The District allowed the Treasurer to perform the fiscal officer duties for LEARN during her normal workday at the District and to proportionally reduce the amount of time she spent performing District job duties. At no time did the District agree to provide additional compensation to the Treasurer for the duties performed for LEARN.

The District Treasurer, Tracey Obermiyer, paid herself, without Board approval, \$4,920 for the additional duties provided for LEARN. As stated above, the Treasurer was not entitled to additional compensation for these services.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Tracey Obermiyer, former Liberty Local School District Treasurer, and Travelers Insurance Company, her bonding company, jointly and severally, in the amount of \$4,920 in favor of the Liberty Local School District General Fund in the amount of \$4,920.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

Management is ultimately responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-007

7. Negative Fund Balances

Noncompliance

Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

**FINDING NUMBER - 2010-007
(Continued)**

While the District had no negative unreserved fund balances at the end of fiscal year 2010, there were negative balances at the end of January 2010 in the General Fund of \$1,048,839 and the Title VIB fund of \$106,934.

The above funds are grant funds, except for the General fund. The District is reimbursed for allowable grant expenditures by the Ohio Department of Education (ODE). So, at month-end, the District was waiting on reimbursements from ODE for the allowable expenses. Proper accounting procedures would have been to advance monies from the general fund to the grant funds to make such allowable expenditures, then, when the District receives the reimbursement of federal funds from the State, they should post the receipts into the grant fund then make an advance to the general fund to repay the initial advancement of monies.

We recommend the District establish procedures to eliminate negative fund balances at anytime during the year, such as, by advancing the monies to the appropriate funds when needed.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-008

8. Misposted Property Taxes and Community Schools' Transactions

Material Weakness

An entity's accounting system encompasses the sequence of steps followed in the accounting process, from analyzing and recording transactions, posting entries, adjusting and closing accounts, and preparing financial statements.

During our testing of the District's property taxes revenue and the related County Auditor and Treasurer fees, we noted several mispostings to the District's records.

- A \$264,568 receipt was posted to the District's Bond Fund. However, no such monies were received by the District. As a result, the District's fund balance in that fund was overstated by this amount. This contributed to the unreconciled bank balances finding 2010-009 describes.
- The District received advance payment of property taxes revenue throughout the fiscal year. However, the District recorded this same revenue and related auditor fees to their accounting system again on April 2, 2010. As a result, the District's taxes revenue and related expenses were overstated for 2010 in the General Fund by \$1,185,000 and \$1,490,298, respectively, and in the Bond Fund by \$454,719 and \$260,381, respectively.
- A \$120,021 receipt was misposted to the District's Permanent Improvement fund, instead of being posted to their General Fund. As a result, the District's fund balances were overstated in the Permanent Improvement fund and understated in the General Fund.
- The District recorded transactions in Fund 599 for start-up activity of one of the District's community schools (LEAD) sponsored by and located within the District. However, receipts and expenditures were misposted to the District's General Fund instead of Fund 599. As a result, the fund balance in the General Fund was improperly reduced by \$15,050 for LEAD activities. No adjustment to the District's accounting system deemed necessary, since the District settled financially with LEAD on September 6, 2011, as disclosed in Note 19.

**FINDING NUMBER - 2010-008
 (Continued)**

These adjustments were posted to the District's accounting system and to the audited financial statements.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

FINDING NUMBER - 2010-009

9. Cash Reconciliations

Material Weakness

A bank to book reconciliation should be performed monthly and reviewed and approved by an individual with appropriate fiscal authority. The reconciliation of the District's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the District. As part of the bank reconciliation, all differences between the balance appearing on the bank statements and the balance of cash according to the District's records should be accounted for.

The District's bank accounts and fund balances were not reconciled during fiscal year 2010. The District hired a CPA firm to perform the reconciliations for the audit period.

Upon conclusion of the reconciliations being performed, the District's books were overstated at year ended by \$142,771. The following fund balance adjustments were necessary:

<u>Fund#</u>	<u>Fund</u>	<u>Amount</u>
001	General Fund	\$(88,231)
532	Education Stabilization Fund	34,104
002	Bond Retirement Fund	(264,568)
024	Self Insurance Fund	<u>175,924</u>
	Net	<u>\$(142,771)</u>

The audit adjustments were posted to the District's accounting system and to the audited financial statements.

We recommend the District implement procedures to help ensure that bank statements are reconciled to the District's books in a timely manner. We further recommend that the bank reconciliations be presented to the Board of Education and approved on a monthly basis. All reconciling amounts should be easily identifiable.

Official's Response: The District relied on its previous treasurer to satisfy this obligation as part of her responsibilities.

**FINDING NUMBER - 2010-009
 (Continued)**

Auditor of States Conclusion:

We agree the former Treasurer had primary responsibility for this requirement. However, management is responsible for the District's compliance with applicable laws and regulations. This responsibility includes correcting noncompliance issues. Management should determine how the District will prevent recurrences of this issue.

3. FINDINGS FOR FEDERAL AWARDS

1. State Fiscal Stabilization Fund – Cash Management

Finding Number	2010-010
CFDA Title and Number	State Fiscal Stabilization Fund, CFDA # 84.394
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance And Material Weakness

34 CFR 80.20 (b)(7) and **34 CFR 80.21 (a)** state that when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

The District received advanced State Fiscal Stabilization program funds (SFSF) through the foundation program. Foundation payments were automatically sent to the District on a bi-weekly basis. The District was to have an internal control system in place to ensure advanced SFSF payments were spent timely (i.e., within 30 days).

Contrary to the requirements listed above, the District did not ensure advanced SFSF payments were spent timely. We noted that the District did not spend the bi-weekly advance payments received from July 2009 through May 2010 totaling \$214,893 until May. In May, the District did a refund of expenditures, which brought the fund to a negative fund balance. While the State Fiscal Stabilization Fund did not receive interest for this period, the requirement still applies.

We recommend the District closely monitor its federal grant cash management activities in order to ensure advanced payments are spent timely (i.e., within 30 days).

Official's Response: The District did not provide any formal written response, but did address how the finding will be corrected in the Corrective Action Plan.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-LLSD-001	Audit Adjustments	No	Not Corrected Reissue as Finding 2010-008
2009-LLSD-002	Bank Reconciliations	No	Not Corrected Reissue as Finding 2010-009
2009-LLSD-003	Timely GAAP Report Filing	No	Not Corrected Reissue as Finding 2010-005
2009-LLSD-004	ORC 5705.36 Estimated Resources	No	Not Corrected Reissue as Finding 2010-001
2009-LLSD-005	ORC 5705.39 Appropriations	No	Not Corrected Reissue as Finding 2010-001
2009-LLSD-006	ORC 5705.40 Appropriations	No	Not Corrected Reissued as Finding 2010-001
2009-LLSD-007	ORC 5705.41B Expenditures exceed Appropriation	No	Not Corrected Reissue as Finding 2010-001
2009-LLSD-008	IRC Chapter 26 Incorrect 941 Report	Yes	Corrected

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-001	District, through its Treasurer, will file proper documentation with the County on a timely basis as required by Auditor of State.	1/12/12	James Wilson, Treasurer
2010-002	District, through its Treasurer, will enter all budgeted items into the accounting system as required by Auditor of State.	1/12/12	James Wilson, Treasurer
2010-003	District, through its Treasurer, will file, in a timely manner, all reports and filings as required by Auditor of State.	1/12/12	James Wilson, Treasurer
2010-004	District, through its Treasurer, will provide 412 Certificate on all matters requiring such documentation.	1/12/12	James Wilson, Treasurer & Board
2010-005	District will implement additional oversight to ensure that the Treasurer will perform all duties as required by Auditor of State.	1/12/12	James Wilson, Treasurer
2010-006	District will assist prosecutor's recovery.	1/12/12	James Wilson, Treasurer & Board
2010-007	District, through its Treasurer, shall follow proper procedures to prevent further occurrences in the future.	1/12/12	James Wilson, Treasurer
2010-008	District, through its Treasurer, will follow proper procedures regarding the posting of taxes.	1/12/12	James Wilson, Treasurer
2010-009	District, through its Treasurer shall ensure that Cash Reconciliations are made on a monthly basis.	1/12/12	James Wilson, Treasurer
2010-010	The District did not provide any formal written response, but did address how the finding will be corrected in the Corrective Action Plan.		

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Dave Yost • Auditor of State

LIBERTY LOCAL SCHOOL DISTRICT

TRUMBULL 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
APRIL 3, 2012