



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, 2011, 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, 2011, 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.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As described in Note 19 to the financial statements, the District has been declared to be in fiscal emergency and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 3316.03(B)(2) of the Ohio Revised Code. This condition raises substantial doubt about the District's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 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

November 16, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities decreased \$2,157,111 which represents a 131.12% decrease from fiscal year 2010.
- General revenues accounted for \$15,235,482 in revenue or 82.18% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,302,735 or 17.82% of total revenues of \$18,538,217.
- The District had \$20,695,328 in expenses related to governmental activities; only \$3,302,735 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 \$15,235,482 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and building fund. The general fund had \$15,118,829 in revenues and \$16,021,527 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund deficit increased \$908,169 from a restated deficit of \$2,871,144 to a deficit of \$3,779,313.
- The District's building fund had \$2,327,350 in other financing sources and \$1,314,266 in expenditures. During fiscal year 2011, the building fund's fund balance increased \$1,013,084 from \$7,436 to \$1,020,520.

**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 building 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, 2011

**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 2011?" 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 building 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, 2011

***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 24-57 of this report.

**The District as a Whole**

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 14,369,545	\$ 15,291,984
Capital assets, net	<u>10,390,292</u>	<u>10,917,774</u>
Total assets	<u>24,759,837</u>	<u>26,209,758</u>
<b><u>Liabilities</u></b>		
Current liabilities	14,440,495	15,071,415
Long-term liabilities	<u>10,831,298</u>	<u>9,493,188</u>
Total liabilities	<u>25,271,793</u>	<u>24,564,603</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,952,322	4,138,185
Restricted	2,770,371	1,889,909
Unrestricted (deficit)	<u>(7,234,649)</u>	<u>(4,382,939)</u>
Total net assets	<u>\$ (511,956)</u>	<u>\$ 1,645,155</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's liabilities exceeded assets by \$511,956.

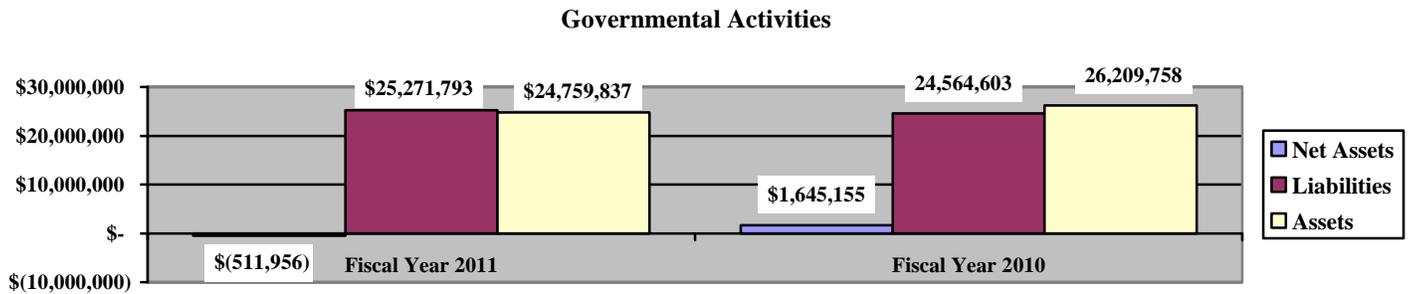
**LIBERTY LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

At fiscal year-end, capital assets represented 41.96% 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, 2011, were \$3,952,322. 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, \$2,770,371, 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 \$7,234,649.

The graph below shows the District's assets, liabilities and net assets at June 30, 2011 and June 30, 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

	<b>Change in Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 933,955	\$ 1,135,528
Operating grants and contributions	2,368,780	2,221,453
General revenues:		
Property taxes	8,767,388	8,456,563
Grants and entitlements	6,264,702	6,870,988
Investment earnings	17,553	9,642
Other	185,839	129,955
<b>Total revenues</b>	<b>18,538,217</b>	<b>18,824,129</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**Change in Net Assets**

	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b><u>Expenses</u></b>		
Instruction:		
Regular	\$ 10,342,092	\$ 9,860,218
Special	1,151,418	1,511,220
Vocational	45,178	81,199
Support services:		
Pupil	420,914	641,147
Instructional staff	507,474	499,573
Board of education	14,608	9,873
Administration	1,961,098	1,168,104
Fiscal	856,078	577,752
Business	4,749	626
Operations and maintenance	2,810,801	1,637,788
Pupil transportation	815,042	834,809
Central	40,810	76,692
Operations of non-instructional services:		
Other non-instructional services	1,321	48,253
Food service operations	656,513	634,189
Extracurricular activities	497,011	514,136
Interest and fiscal charges	<u>570,221</u>	<u>499,265</u>
Total expenses	<u>20,695,328</u>	<u>18,594,844</u>
Changes in net assets	(2,157,111)	229,285
Net assets at beginning of year	<u>1,645,155</u>	<u>1,415,870</u>
Net assets at end of year	<u><u>\$ (511,956)</u></u>	<u><u>\$ 1,645,155</u></u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$2,157,111. Total governmental expenses of \$20,695,328 were offset by program revenues of \$3,302,735 and general revenues of \$15,235,482. Program revenues supported 15.96% of the total governmental expenses.

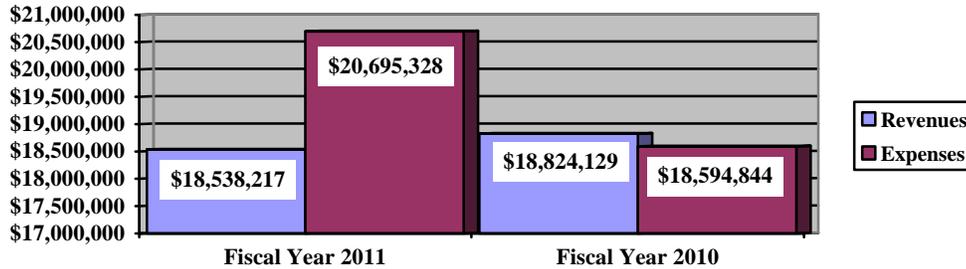
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 81.09% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

**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 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

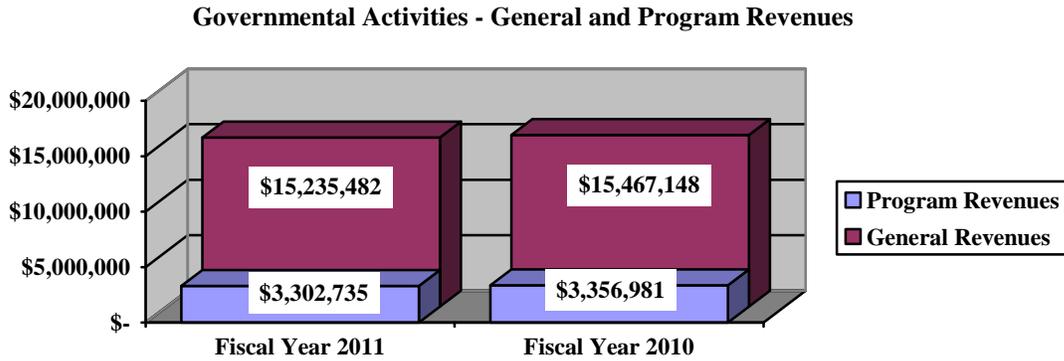
	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
<b>Program expenses</b>				
Instruction:				
Regular	\$ 10,342,092	\$ 9,343,529	\$ 9,860,218	\$ 8,767,382
Special	1,151,418	213,667	1,511,220	642,737
Vocational	45,178	36,609	81,199	60,096
Support services:				
Pupil	420,914	420,132	641,147	600,389
Instructional staff	507,474	273,515	499,573	212,456
Board of education	14,608	14,608	9,873	9,873
Administration	1,961,098	1,912,728	1,168,104	946,332
Fiscal	856,078	851,860	577,752	572,916
Business	4,749	4,749	626	626
Operations and maintenance	2,810,801	2,590,018	1,637,788	1,637,788
Pupil transportation	815,042	815,042	834,809	833,606
Central	40,810	33,985	76,692	69,833
Operations of non-instructional services:				
Other non-instructional services	1,321	(22,792)	48,253	47,539
Food service operations	656,513	(61,959)	634,189	(89,371)
Extracurricular activities	497,011	396,681	514,136	426,396
Interest and fiscal charges	570,221	570,221	499,265	499,265
<b>Total expenses</b>	<u>\$ 20,695,328</u>	<u>\$ 17,392,593</u>	<u>\$ 18,594,844</u>	<u>\$ 15,237,863</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The dependence upon tax and other general revenues for governmental activities is apparent, 83.14% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.04%. 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 2011 and 2010.



**The District's Funds**

The June 30, 2010 fund balance of the general fund and other governmental funds were restated for fund reclassifications required for the implementation of GASB Statement No. 54 (See note 3.B for detail). The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$2,015,458, which is less than last year's restated deficit balance of \$2,140,518. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Restated Fund Balance (Deficit) <u>June 30, 2010</u>	<u>Increase/(Decrease)</u>
General	\$ (3,779,313)	\$ (2,871,144)	\$ (908,169)
Building	1,020,520	7,436	1,013,084
Other Governmental	<u>743,335</u>	<u>723,190</u>	<u>20,145</u>
Total	<u>\$ (2,015,458)</u>	<u>\$ (2,140,518)</u>	<u>\$ 125,060</u>

**General Fund**

The District's general fund deficit increased \$908,169 from a restated deficit balance of \$ 2,871,144 to a deficit of \$3,779,313.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The table that follows assists in illustrating the financial activities and fund balance of the general fund for fiscal years 2011 and 2010.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 7,608,675	\$ 7,764,744	\$ (156,069)	(2.01) %
Tuition	576,829	741,980	(165,151)	(22.26) %
Earnings on investments	17,553	9,642	7,911	82.05 %
Intergovernmental	6,672,949	6,750,149	(77,200)	(1.14) %
Other revenues	<u>242,823</u>	<u>212,998</u>	<u>29,825</u>	14.00 %
Total	<u>\$ 15,118,829</u>	<u>\$ 15,479,513</u>	<u>\$ (360,684)</u>	(2.33) %
<b><u>Expenditures</u></b>				
Instruction	\$ 10,093,357	\$ 10,184,986	\$ (91,629)	(0.90) %
Support services	5,469,376	4,806,410	662,966	13.79 %
Operation of non-instructional services	958	7,317	(6,359)	(86.91) %
Extracurricular activities	314,039	345,244	(31,205)	(9.04) %
Debt service	<u>102,002</u>	<u>66,421</u>	<u>35,581</u>	53.57 %
Total	<u>\$ 15,979,732</u>	<u>\$ 15,410,378</u>	<u>\$ 569,354</u>	3.69 %

Overall revenues decreased \$360,684 or 2.33%. The decrease in tuition revenue of \$165,151 or 22.26% is primarily due to the decrease of students participating in open enrollment. The increase in earnings on investment of \$7,911 or 82.05% is due to increased amounts in investment accounts. All other revenues remained comparable to fiscal year 2010.

Overall expenditures increased \$569,354 or 3.69%. This increase is primarily attributable to a increase in support services expenditures. Support services expenditures increased \$662,966 or 13.79%. All other expenditures remained comparable to fiscal year 2010.

***Building Fund***

The District's building fund had \$2,327,350 in other financing sources and \$1,314,266 in expenditures. During fiscal year 2011, the building fund's fund balance increased \$1,013,084 from \$7,436 to \$1,020,520.

***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 \$15,061,099, which was \$2,790,010 more than the original budgeted amounts. Actual revenues and other financing sources for fiscal year 2011 were \$15,061,099.

For the general fund, final budget basis expenditures and other financing uses were \$15,293,942, which was the same as the original budgeted amounts. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$16,316,602, which were \$1,022,660 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, 2011

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2011, the District had \$10,390,292 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, 2011 balances compared to the balances at June 30, 2010.

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2011	2010
Land	\$ 349,160	\$ 349,160
Land improvements	304,955	355,082
Buildings and improvements	9,082,781	9,424,815
Furniture and equipment	584,611	666,869
Vehicles	68,785	99,554
Textbooks	-	22,294
Total	\$ 10,390,292	\$ 10,917,774

The overall decrease in capital assets is due to depreciation expense of \$535,077 exceeding capital asset additions of \$7,595 during fiscal year 2011. See Note 8 to the basic financial statements for detail on the District's capital assets.

*Debt Administration*

At June 30, 2011, the District had \$7,424,245 in general obligation bonds outstanding and \$2,327,350 in energy conservation improvement bonds. Of this total, \$840,157 is due within one year and \$8,911,438 is due in greater than one year. The following table summarizes the general obligation bonds at June 30, 2011 and June 30, 2010.

**Outstanding Debt, at Year End**

	2011	2010
General obligation bonds	\$ 7,424,245	\$7,904,845
Energy conservation improvement bonds	2,327,350	-
Total	\$ 9,751,595	\$7,904,845

At June 30, 2011, the District's overall legal debt margin was \$14,661,297 with an unvoted debt margin of \$233,492. 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, 2011

**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 2010, which had a negative impact on the District's enrollment. This caused the District to lose 120 students and function in the amount of \$624,000. 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, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 3,040,258
Receivables:	
Property taxes . . . . .	10,467,955
Accounts. . . . .	14,207
Intergovernmental . . . . .	746,178
Materials and supplies inventory. . . . .	15,932
Unamortized bond issuance costs . . . . .	85,015
Capital assets:	
Land . . . . .	349,160
Depreciable capital assets, net. . . . .	10,041,132
Capital assets, net . . . . .	10,390,292
Total assets. . . . .	24,759,837
<b>Liabilities:</b>	
Accounts payable. . . . .	329,758
Contracts payable. . . . .	770,000
Accrued wages and benefits . . . . .	1,030,981
Pension obligation payable. . . . .	293,055
Intergovernmental payable . . . . .	186,945
Unearned revenue . . . . .	8,945,439
Accrued interest payable . . . . .	36,417
Claims payable. . . . .	400,700
Notes payable . . . . .	2,447,200
Long-term liabilities:	
Due within one year. . . . .	937,055
Due in more than one year. . . . .	9,894,243
Total liabilities . . . . .	25,271,793
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,952,322
Restricted for:	
Permanent fund - nonexpendable . . . . .	4,269
Capital projects . . . . .	1,020,520
Locally funded programs . . . . .	393
State funded programs. . . . .	101,545
Federally funded programs . . . . .	475,387
Student activities . . . . .	7,670
Other purposes . . . . .	1,160,587
Unrestricted (deficit) . . . . .	(7,234,649)
Total net assets (deficit). . . . .	\$ (511,956)

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, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental
				Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 10,342,092	\$ 560,048	\$ 438,515	\$ (9,343,529)
Special . . . . .	1,151,418	25,395	912,356	(213,667)
Vocational . . . . .	45,178	-	8,569	(36,609)
Support services:				
Pupil . . . . .	420,914	-	782	(420,132)
Instructional staff . . . . .	507,474	-	233,959	(273,515)
Board of education . . . . .	14,608	-	-	(14,608)
Administration . . . . .	1,961,098	48,370	-	(1,912,728)
Fiscal . . . . .	856,078	-	4,218	(851,860)
Business . . . . .	4,749	-	-	(4,749)
Operations and maintenance . . . . .	2,810,801	-	220,783	(2,590,018)
Pupil transportation . . . . .	815,042	-	-	(815,042)
Central . . . . .	40,810	-	6,825	(33,985)
Operation of non-instructional services:				
Other non-instructional services . . . . .	1,321	-	24,113	22,792
Food service operations . . . . .	656,513	200,612	517,860	61,959
Extracurricular activities . . . . .	497,011	99,530	800	(396,681)
Interest and fiscal charges . . . . .	570,221	-	-	(570,221)
<b>Total governmental activities . . . . .</b>	<b>\$ 20,695,328</b>	<b>\$ 933,955</b>	<b>\$ 2,368,780</b>	<b>(17,392,593)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	7,844,207
Debt service . . . . .	802,378
Capital outlay . . . . .	120,803
Grants and entitlements not restricted to specific programs . . . . .	6,264,702
Investment earnings . . . . .	17,553
Miscellaneous . . . . .	185,839
<b>Total general revenues . . . . .</b>	<b>15,235,482</b>
Change in net assets . . . . .	(2,157,111)
<b>Net assets at beginning of year . . . . .</b>	<b>1,645,155</b>
<b>Net assets (deficit) at end of year . . . . .</b>	<b>\$ (511,956)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 447	\$ 1,790,520	\$ 602,422	\$ 2,393,389
Receivables:				
Property taxes. . . . .	9,326,607	-	1,141,348	10,467,955
Accounts . . . . .	13,042	-	1,165	14,207
Intergovernmental. . . . .	-	-	746,178	746,178
Materials and supplies inventory. . . . .	7,137	-	8,795	15,932
Due from other funds . . . . .	-	-	459,967	459,967
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	5,177	-	-	5,177
Total assets . . . . .	<u>\$ 9,352,410</u>	<u>\$ 1,790,520</u>	<u>\$ 2,959,875</u>	<u>\$ 14,102,805</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 119,158	\$ -	\$ 210,600	\$ 329,758
Contracts payable. . . . .	-	770,000	-	770,000
Accrued wages and benefits. . . . .	930,727	-	100,254	1,030,981
Pension obligation payable . . . . .	248,776	-	44,279	293,055
Intergovernmental payable . . . . .	174,501	-	12,444	186,945
Deferred revenue . . . . .	1,233,494	-	413,651	1,647,145
Accrued interest payable . . . . .	7,773	-	-	7,773
Notes payable. . . . .	2,447,200	-	-	2,447,200
Due to other funds . . . . .	-	-	459,967	459,967
Unearned revenue. . . . .	7,970,094	-	975,345	8,945,439
Total liabilities. . . . .	<u>13,131,723</u>	<u>770,000</u>	<u>2,216,540</u>	<u>16,118,263</u>
<b>Fund Balances:</b>				
Nonspendable:				
Materials and supplies inventory. . . . .	7,137	-	8,795	15,932
Permanent fund . . . . .	-	-	4,269	4,269
Restricted:				
Capital improvements . . . . .	-	1,020,520	78,152	1,098,672
Food service operations . . . . .	-	-	492,552	492,552
Non-public schools . . . . .	-	-	40,580	40,580
Public school preschool . . . . .	-	-	45,606	45,606
Special education . . . . .	-	-	99,924	99,924
Targeted academic assistance . . . . .	-	-	86,694	86,694
Extracurricular. . . . .	-	-	7,670	7,670
Other purposes. . . . .	-	-	95,869	95,869
Textbooks. . . . .	639,056	-	-	639,056
School bus purchases . . . . .	39,581	-	-	39,581
Assigned:				
Student instruction . . . . .	4,366	-	-	4,366
Public school support . . . . .	33,137	-	-	33,137
Other purposes. . . . .	15,762	-	-	15,762
Unassigned (deficit) . . . . .	(4,518,352)	-	(216,776)	(4,735,128)
Total fund balances (deficit) . . . . .	<u>(3,779,313)</u>	<u>1,020,520</u>	<u>743,335</u>	<u>(2,015,458)</u>
Total liabilities and fund balances . . . . .	<u>\$ 9,352,410</u>	<u>\$ 1,790,520</u>	<u>\$ 2,959,875</u>	<u>\$ 14,102,805</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, 2011

<b>Total governmental fund balances (deficit)</b>		\$	(2,015,458)
<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.			10,390,292
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	1,384,443	
Intergovernmental receivable		262,702	
Total		1,647,145	1,647,145
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.			240,992
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(28,644)
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of assets.			85,015
Unamortized premiums on bond issuance costs are not recognized in the funds.			(276,614)
Unamortized deferred charges on refundings are not recognized in the funds.			191,595
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		7,424,245	
Energy conservation bond		2,327,350	
Compensated absences		994,684	
Total		10,746,279	(10,746,279)
<b>Net assets (deficit) of governmental activities</b>		\$	(511,956)

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, 2011

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 7,608,675	\$ -	\$ 963,074	\$ 8,571,749
Tuition. . . . .	576,829	-	-	576,829
Charges for services . . . . .	-	-	200,612	200,612
Earnings on investments . . . . .	17,553	-	-	17,553
Extracurricular. . . . .	-	-	99,530	99,530
Classroom materials and fees . . . . .	56,984	-	-	56,984
Contributions and donations . . . . .	-	-	800	800
Other local revenues . . . . .	185,839	-	-	185,839
Intergovernmental - State . . . . .	6,672,949	-	309,730	6,982,679
Intergovernmental - Federal . . . . .	-	-	1,908,641	1,908,641
Total revenues . . . . .	<u>15,118,829</u>	<u>-</u>	<u>3,482,387</u>	<u>18,601,216</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular. . . . .	9,357,380	-	621,987	9,979,367
Special . . . . .	692,363	-	472,883	1,165,246
Vocational . . . . .	43,614	-	-	43,614
Support services:				
Pupil . . . . .	408,593	-	877	409,470
Instructional staff . . . . .	270,791	-	223,057	493,848
Board of education . . . . .	14,608	-	-	14,608
Administration . . . . .	2,032,136	-	23,657	2,055,793
Fiscal . . . . .	848,107	-	22,434	870,541
Business. . . . .	4,749	-	-	4,749
Operations and maintenance . . . . .	1,088,226	1,314,266	405,311	2,807,803
Pupil transportation . . . . .	768,181	-	19,723	787,904
Central . . . . .	33,985	-	6,825	40,810
Operation of non-instructional services:				
Other non-instructional services . . . . .	958	-	363	1,321
Food service operations. . . . .	-	-	627,491	627,491
Extracurricular activities . . . . .	314,039	-	137,675	451,714
Debt service:				
Principal retirement. . . . .	-	-	665,000	665,000
Interest and fiscal charges . . . . .	102,002	-	278,151	380,153
Total expenditures . . . . .	<u>15,979,732</u>	<u>1,314,266</u>	<u>3,505,434</u>	<u>20,799,432</u>
Excess expenditures over revenues. . . . .	<u>(860,903)</u>	<u>(1,314,266)</u>	<u>(23,047)</u>	<u>(2,198,216)</u>
<b>Other financing sources (uses):</b>				
Sale of bonds . . . . .	-	2,327,350	-	2,327,350
Transfers in. . . . .	-	-	41,795	41,795
Transfers (out) . . . . .	(41,795)	-	-	(41,795)
Total other financing sources (uses) . . . . .	<u>(41,795)</u>	<u>2,327,350</u>	<u>41,795</u>	<u>2,327,350</u>
Net change in fund balances . . . . .	(902,698)	1,013,084	18,748	129,134
<b>Fund balances (deficit) at</b>				
<b>beginning of year (restated) . . . . .</b>	(2,871,144)	7,436	723,190	(2,140,518)
<b>Increase (decrease) in reserve for inventory .</b>	(5,471)	-	1,397	(4,074)
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ (3,779,313)</u>	<u>\$ 1,020,520</u>	<u>\$ 743,335</u>	<u>\$ (2,015,458)</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, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	129,134
<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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 7,595	
Current year depreciation	(535,077)	
Total		(527,482)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(4,074)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	195,639	
Intergovernmental	(258,638)	
Total		(62,999)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		665,000
Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets.		
		(2,327,350)
Governmental funds report expenditures for interest when it is due. In the Statement of activities, interest is 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:		
(Increase) in accrued interest payable	(5,668)	
Accreted interest on capital appreciation bonds	(184,400)	
Amortization of bond issuance costs	(9,028)	
Amortization of bond premiums	29,375	
Amortization of deferred charges	(20,347)	
Total		(190,068)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		443,362
An 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 expense of the internal service fund is allocated among the governmental activities.		
		(282,634)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(2,157,111)</b>

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, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 6,267,939	\$ 7,619,485	\$ 7,619,485	\$ -
Tuition . . . . .	461,126	576,829	576,829	-
Earnings on investments . . . . .	14,293	17,553	17,553	-
Classroom materials and fees . . . . .	5,619	6,964	6,964	-
Other local revenues . . . . .	132,727	163,447	163,447	-
Intergovernmental - state . . . . .	5,378,267	6,665,702	6,665,702	-
<b>Total revenues . . . . .</b>	<u>12,259,970</u>	<u>15,049,980</u>	<u>15,049,980</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	8,185,341	8,185,341	9,282,172	(1,096,831)
Special . . . . .	685,878	685,878	685,363	515
Vocational . . . . .	56,347	56,347	56,509	(162)
Support services:				
Pupil . . . . .	445,115	445,115	433,650	11,465
Instructional staff . . . . .	319,958	319,958	281,876	38,082
Board of education . . . . .	14,854	14,854	15,047	(193)
Administration . . . . .	1,862,815	1,862,815	1,947,320	(84,505)
Fiscal . . . . .	855,344	855,344	817,435	37,909
Business . . . . .	7,550	7,550	4,749	2,801
Operations and maintenance . . . . .	1,239,542	1,239,542	1,103,293	136,249
Pupil transportation . . . . .	671,523	671,523	682,325	(10,802)
Central . . . . .	18,680	18,680	32,104	(13,424)
Other non-instructional services . . . . .	1,000	1,000	1,000	-
Extracurricular activities . . . . .	300,897	300,897	303,470	(2,573)
Debt service:				
Principal . . . . .	523,000	523,000	523,000	-
Interest and fiscal charges . . . . .	98,850	98,850	98,850	-
<b>Total expenditures . . . . .</b>	<u>15,286,694</u>	<u>15,286,694</u>	<u>16,268,163</u>	<u>(981,469)</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(3,026,724)</u>	<u>(236,714)</u>	<u>(1,218,183)</u>	<u>(981,469)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	11,119	11,119	11,119	-
Refund of prior year's receipts . . . . .	(7,248)	(7,248)	(7,248)	-
Transfers (out) . . . . .	-	-	(41,191)	(41,191)
<b>Total other financing sources (uses) . . . . .</b>	<u>3,871</u>	<u>3,871</u>	<u>(37,320)</u>	<u>(41,191)</u>
Net change in fund balance . . . . .	(3,022,853)	(232,843)	(1,255,503)	(1,022,660)
<b>Fund balance at beginning of year (restated) . . . . .</b>	1,043,653	1,043,653	1,043,653	-
<b>Prior year encumbrances appropriated . . . . .</b>	210,661	210,661	210,661	-
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ (1,768,539)</u>	<u>\$ 1,021,471</u>	<u>\$ (1,189)</u>	<u>\$ (1,022,660)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 641,692
Total assets . . . . .	<u>641,692</u>
<b>Liabilities:</b>	
Claims payable . . . . .	<u>400,700</u>
Total liabilities . . . . .	<u>400,700</u>
<b>Net assets:</b>	
Unrestricted . . . . .	<u>240,992</u>
Total net assets . . . . .	<u><u>\$ 240,992</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, 2011

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 2,373,954
Total operating revenues . . . . .	2,373,954
<b>Operating expenses:</b>	
Claims . . . . .	2,656,588
Total operating expenses. . . . .	2,656,588
Change in net assets. . . . .	(282,634)
<b>Net assets at beginning of year . . . . .</b>	<b>523,626</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 240,992</b>

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, 2011

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received for charges for services . . . . .	\$ 2,373,954
Cash payments for claims and administrative services . . . . .	<u>(2,352,686)</u>
Net cash provided by operating activities . . . . .	<u>21,268</u>
Net increase in cash and cash equivalents . . . . .	21,268
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>620,424</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 641,692</u></u>
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (282,634)
Changes in assets and liabilities:	
Increase in claims payable . . . . .	<u>303,902</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 21,268</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, 2011

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 51,216
Total assets. . . . .	\$ 51,216
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 542
Intergovernmental payable . . . . .	60
Due to students. . . . .	50,614
Total liabilities . . . . .	\$ 51,216

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, 2011

**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 377<sup>th</sup> largest by enrollment among the 918 public school districts in the State. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 70 non-certified and 97 certified personnel to provide services to approximately 1,427 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, 2011

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

The following organization is described due to its 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, 2011

**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.

*Building fund* - The building fund is used to account for receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**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, 2011

**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, 2011

**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, 2011, but which were levied to finance fiscal year 2012 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, 2011 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, 2011

**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, 2011

**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.

The District has invested funds in STAR Ohio during fiscal year 2011. 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, 2011.

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 2011 amounted to \$17,553, which includes \$14,684 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. 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, 2011

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

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance 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 to cover negative cash balances in 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, 2011

**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, 2011, 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, 2011

**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**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**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 and food service operations.

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

**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 textbooks. 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 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Building</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ (2,926,898)	\$ 7,436	\$ 778,944	\$ (2,140,518)
Fund reclassifications:				
Special trust fund	37,934	-	(37,934)	-
Public school support fund	<u>17,820</u>	<u>-</u>	<u>(17,820)</u>	<u>-</u>
Total fund reclassifications	<u>55,754</u>	<u>-</u>	<u>(55,754)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ (2,871,144)</u>	<u>\$ 7,436</u>	<u>\$ 723,190</u>	<u>\$ (2,140,518)</u>

The fund reclassifications did not have an effect on net assets as previously reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**C. Budgetary Prior Period Adjustment**

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

**Budgetary Basis**

	General Fund
Balance at June 30, 2010	\$ 1,077,921
Funds budgeted elsewhere	(34,268)
Restated balance at July 1, 2010	\$ 1,043,653

**D. Deficit Fund Balances**

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 3,769,313
 <u>Nonmajor funds</u>	
Bond retirement	226,036
Management information systems	680
Poverty aid	60

The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future revenues not recognized under GAAP at June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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;
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);

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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, 2011, the carrying amount of all District deposits was \$3,083,551. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$2,973,098 of the District's bank balance of \$3,223,098 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.

**B. Investments**

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>6 months or less</u>
STAR Ohio	<u>\$ 7,923</u>	<u>\$ 7,923</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*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 rating 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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 7,923	100.00

**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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,083,551
Investments	<u>7,923</u>
Total	<u>\$ 3,091,474</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,040,258
Agency fund	<u>51,216</u>
Total	<u>\$ 3,091,474</u>

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from the general fund to:</u>	
Nonmajor governmental fund	<u>\$ 41,795</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>
Food service (a nonmajor governmental fund)	Nonmajor governmental	<u>\$ 459,967</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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, 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 the District's fiscal year ended June 30, 2011 (other than public utility property) generally 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 were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$123,019 in the general fund, \$12,894 in the debt service fund (a nonmajor governmental fund) and \$2,160 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$123,829 in the general fund, \$20,242 in the debt service fund (a nonmajor governmental fund) and \$3,438 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 delinquent tangible personal property taxes which are measurable as of June 30, 2011 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, 2011

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 227,940,410	97.54	\$ 227,919,560	97.61
Public utility personal	4,947,040	2.12	5,572,080	2.39
Tangible personal property	<u>794,620</u>	<u>0.34</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 233,682,070</u>	<u>100.00</u>	<u>\$ 233,491,640</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$50.95		\$50.90	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of property 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:**

Property taxes	\$ 10,467,955
Accounts	14,207
Intergovernmental	<u>746,178</u>
Total	<u>\$ 11,228,340</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, 2011

**NOTE 8 - CAPITAL ASSETS**

Capital assets of the governmental for fiscal year 2011, is as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
<b>Governmental activities:</b>				
<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	7,595	-	1,818,698
Vehicles	1,076,837	-	-	1,076,837
Textbooks	911,660	-	-	911,660
Total capital assets, being depreciated	<u>21,706,062</u>	<u>7,595</u>	<u>-</u>	<u>21,713,657</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(972,962)	(50,127)	-	(1,023,089)
Buildings and improvements	(7,153,603)	(342,034)	-	(7,495,637)
Furniture and equipment	(1,144,234)	(89,853)	-	(1,234,087)
Vehicles	(977,283)	(30,769)	-	(1,008,052)
Textbooks	(889,366)	(22,294)	-	(911,660)
Total accumulated depreciation	<u>(11,137,448)</u>	<u>(535,077)</u>	<u>-</u>	<u>(11,672,525)</u>
Governmental activities capital assets, net	<u>\$ 10,917,774</u>	<u>\$ (527,482)</u>	<u>\$ -</u>	<u>\$ 10,390,292</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 399,906
<u>Support services:</u>	
Operations and maintenance	29,458
Pupil transportation	28,247
Operation of non-instructional services	33,017
Extracurricular activities	<u>44,449</u>
Total depreciation expense	<u>\$ 535,077</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance 06/30/10	Additions	Reductions	Balance 06/30/11	Amounts Due in One Year
General obligation bonds	\$ 7,904,845	\$ 184,400	\$ (665,000)	\$ 7,424,245	\$ 685,000
Energy conservation bonds	-	2,327,350	-	2,327,350	155,157
Early retirement incentive	56,250	-	(56,250)	-	-
Compensated absences	<u>1,438,046</u>	<u>96,898</u>	<u>(540,260)</u>	<u>994,684</u>	<u>96,898</u>
Total	<u>\$ 9,399,141</u>	<u>\$ 2,608,648</u>	<u>\$ (1,261,510)</u>	10,746,279	<u>\$ 937,055</u>
Less: Unamortized deferred charge on refunding				(191,595)	
Add: Unamortized premium on refunding				<u>276,614</u>	
Total on statement of net assets				<u>\$ 10,831,298</u>	

*Early Retirement Incentive:* The District offered an early retirement incentive (ERI) to non-certified staff and certified teaching staff in fiscal year 2010. The ERI payments were paid from the general fund during fiscal year 2011.

*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.

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 2011, capital appreciation bonds of \$252,591 matured with a total accreted interest of \$332,409. The outstanding portion of the issue consists of capital appreciation bonds, par value \$472,957. The remaining capital appreciation bonds mature on 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 \$1,215,000. Total accreted interest of \$665,795 has been included on the statement of net assets at June 30, 2011.

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a schedule of activity for fiscal year 2011 on the 1997 series general obligation bonds:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
General obligation bonds - series 1997:					
Capital appreciation bonds	\$ 725,548	\$ -	\$ (252,591)	\$ 472,957	\$ 242,898
Accreted interest	<u>908,392</u>	<u>89,812</u>	<u>(332,409)</u>	<u>665,795</u>	<u>357,102</u>
Total G.O. bonds - series 1997	<u>\$ 1,633,940</u>	<u>\$ 89,812</u>	<u>\$ (585,000)</u>	<u>\$ 1,138,752</u>	<u>\$ 600,000</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>
2012	\$ 242,898	\$ 357,102	\$ 600,000
2013	<u>230,059</u>	<u>384,941</u>	<u>615,000</u>
Total	<u>\$ 472,957</u>	<u>\$ 742,043</u>	<u>\$ 1,215,000</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.

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 \$405,499 has been included on the statement of net assets at June 30, 2011.

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a schedule of activity for fiscal year 2011 on the 2006 series refunding bonds:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Refunding bonds - series 2006:					
Current interest bonds	\$ 5,315,000	\$ -	\$ (80,000)	\$ 5,235,000	\$ 85,000
Capital appreciation bonds	644,994	-	-	644,994	-
Accreted interest	<u>310,911</u>	<u>94,588</u>	<u>-</u>	<u>405,499</u>	<u>-</u>
Total refunding bonds - series 2006	<u>\$ 6,270,905</u>	<u>\$ 94,588</u>	<u>\$ (80,000)</u>	<u>\$ 6,285,493</u>	<u>\$ 85,000</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,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	-	175,147	175,147	305,193	454,807	760,000
2017 - 2021	<u>4,345,000</u>	<u>538,070</u>	<u>4,883,070</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,235,000</u>	<u>\$ 1,530,888</u>	<u>\$ 6,765,888</u>	<u>\$ 644,994</u>	<u>\$ 885,006</u>	<u>\$ 1,530,000</u>

- D.** On December 14, 2010, the District issued energy conservation improvement qualified school construction bonds to provide for energy improvements to various District buildings. The primary source of repayment of this obligation is through energy savings as a result of the improvements. The improvements were not capitalized and will not be included in the net assets invested in capital assets calculation. Payments of principal and interest relating to these liabilities are recorded as expenditures in the bond retirement fund, a nonmajor governmental fund.

The bonds were issued as current interest sinking fund bonds and mature in the principal amount on December 1 of the following year and bear interest at the rate per year as follows.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2025	\$2,327,350	5.43%

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The bonds are subject to mandatory sinking fund requirements on December 1 in the years (mandatory sinking fund dates) and in the principal amounts as follows:

<u>Year (December 1)</u>	<u>Principal Amount</u>
2011	\$155,157
2012	155,156
2013	155,156
2014	155,156
2015	155,156
2016	155,156
2017	155,157
2018	155,157
2019	155,157
2020	155,157
2021	155,157
2022	155,157
2023	155,157
2024	155,157

Interest payments are June 1 and December 1 of each year that bonds are outstanding, commencing June 1, 2011.

The following is a schedule of activity for fiscal year 2011 for the 2010 energy conservation improvement bonds:

	<u>Interest Rate</u>	<u>Balance Outstanding June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2011</u>	<u>Amounts Due in One Year</u>
Energy conservation improvement bonds	5.43%	-	2,327,350	-	2,327,350	155,157
<b>Total</b>		<u>\$ -</u>	<u>\$ 2,327,350</u>	<u>\$ -</u>	<u>\$ 2,327,350</u>	<u>\$ 155,157</u>

**LIBERTY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the District's future debt service requirements to maturity for the energy conservation bond:

Fiscal Year Ended	2010 Energy Conservation Improvement Bonds		
	Principal	Interest	Total
2012	\$ 155,157	\$ 126,375	\$ 281,532
2013	155,156	126,375	281,531
2014	155,156	126,375	281,531
2015	155,156	126,375	281,531
2016	155,156	126,375	281,531
2017 - 2021	775,784	631,875	1,407,659
2022 - 2025	775,785	568,688	1,344,473
Total	<u>\$ 2,327,350</u>	<u>\$ 1,832,438</u>	<u>\$ 4,159,788</u>

**E. 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, 2011, are a voted debt margin of \$14,661,297 and an unvoted debt margin of \$233,492.

**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 matured on December 10, 2010 and bore 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 2011, the District made \$523,000 in principal and \$98,850 in interest payments out of the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - NOTES PAYABLE - (Continued)**

The following is a schedule of activity for fiscal year 2011 on the tax anticipation notes:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Tax anticipation note - 3.47%	\$ 355,200	\$ -	\$ (355,200)	\$ -	\$ -
Tax anticipation note - 4.90%	839,000	-	(167,800)	671,200	167,800
Tax anticipation note - 3.40%	<u>1,776,000</u>	-	-	<u>1,776,000</u>	<u>355,200</u>
Total tax anticipation notes	<u>\$ 2,970,200</u>	<u>\$ -</u>	<u>\$ (523,000)</u>	<u>\$ 2,447,200</u>	<u>\$ 523,000</u>

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>
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>\$ 2,447,200</u>	<u>\$ 216,738</u>	<u>\$ 2,663,938</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)**

**B. 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 \$4,000,000 for each occurrence and \$6,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$4,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$47,180,923.

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 2010.

**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, Anthem Insurance Companies, Inc., reviewed and paid all claims for fiscal year 2011. 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, 2011

**NOTE 12 - RISK MANAGEMENT - (Continued)**

The claims liability of \$400,700 reported in the internal service fund at June 30, 2011 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 2011 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>
2011	\$ 96,798	\$ 2,656,588	\$ (2,352,686)	\$ 400,700
2010	92,051	2,443,251	(2,438,504)	96,798

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](http://www.ohsers.org), under "*Media/Financial Reports*".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 2011, 11.77 percent and 0.04 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, 2011, 2010 and 2009 were \$240,694, \$255,284 and \$187,075, respectively; 56.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**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 website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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 2011, 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, 2011

**NOTE 13 - PENSION PLANS - (Continued)**

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$784,300, \$821,537 and \$862,484, respectively; 87.35 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$30,985 made by the District and \$22,132 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, 2011, 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 Section 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 2011 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](http://www.ohsers.org), under "*Media/Financial Reports*".

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 2011, 1.43 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 2011, 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, 2011

**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, 2011, 2010 and 2009 were \$61,363, \$41,407 and \$117,770, respectively; 56.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$15,489, \$15,181 and \$15,435, respectively; 56.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**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](http://www.strsoh.org), under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$60,331, \$63,195 and \$66,345, respectively; 87.35 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**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, 2011

**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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget 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	\$ (1,255,503)
Net adjustment for revenue accruals	30,479
Net adjustment for expenditure accruals	409,939
Net adjustment for other sources/uses	(3,871)
Funds budgeted elsewhere	(80,108)
Adjustment for encumbrances	6,366
GAAP basis	<u>\$ (892,698)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, the public school support fund and the retirement trust fund.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 - SET-ASIDES**

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 421,883	\$ -
Current year set-aside requirement	217,173	217,173
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	-	(376,434)
Excess qualified expenditures from prior years	-	-
Current year offsets	-	-
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ 639,056</u>	<u>\$ (159,261)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ 639,056</u>	<u>\$ -</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

During fiscal year 2011, the District issued \$2,327,350 in energy conservation improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$2,327,350 at June 30, 2011.

In addition to the above statutory set-asides, the District also has \$39,581 in monies restricted for school bus purchases.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 - SET-ASIDES - (Continued)**

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for textbooks	\$ 639,056
Amount restricted for school bus purchases	<u>39,581</u>
Total restricted cash	<u>\$ 678,637</u>

These amounts will be shown as restricted in the general fund's fund balance, however due to the limited amount of cash and cash equivalents in the general fund only \$5,177 will be shown as a restricted asset.

**NOTE 18 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 5,645
Other governmental	<u>129,676</u>
Total	<u>\$ 135,321</u>

**NOTE 19 - 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 20 - 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 RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	2011	10.553	\$129,851		\$129,851	
National School Lunch Program	2011	10.555	331,869	44,015	331,869	44,015
<i>Total Nutrition Cluster</i>			<u>461,720</u>	<u>44,015</u>	<u>461,720</u>	<u>44,015</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>461,720</u>	<u>44,015</u>	<u>461,720</u>	<u>44,015</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Title I, Part A Cluster</i>						
Title I Grants to Local Educational Agencies	2011	84.010	293,779		330,239	
Title I Grants to Local Educational Agencies, Recovery Act	2011	84.389	116,791		145,718	
<i>Total Title I Grants to Local Educational Agencies</i>			<u>410,570</u>		<u>475,957</u>	
<i>Special Education Cluster (IDEA)</i>						
Special Education Grants to States	2011	84.027	191,896		239,185	
Special Education Grants to States, Recovery Act	2010	84.931	0		2,377	
Special Education Grants to States, Recovery Act	2011	84.931	28,460		138,022	
<i>Total Special Education Grants to States</i>			<u>220,356</u>		<u>379,583</u>	
<i>Education Jobs Funds</i>						
Education Jobs Funds	2011	84.410	166,084		166,084	
<i>Total Education Jobs Funds Grants</i>			<u>166,084</u>		<u>166,084</u>	
<i>Education Technology State Grants Title II, Part D</i>						
Education Technology State Grants Title II, Part D	2011	84.318	140		0	
<i>Total Education Technology State Grants</i>			<u>140</u>		<u>0</u>	
<i>Improving Teacher Quality State Grants Title II, Part A</i>						
Improving Teacher Quality State Grants	2011	84.340	4,512		40,123	
<i>Total Improving Teacher Quality State Grants</i>			<u>4,512</u>		<u>40,123</u>	
<i>State Fiscal Stabilization Fund - Education State Grants, Recovery Act</i>						
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	2010	84.394	34,104		0	
	2011	84.394	292,457		275,303	
<i>Total State Fiscal Stabilization Fund - Education State Grants Recovery Act</i>			<u>326,561</u>		<u>275,303</u>	
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>1,128,223</u>		<u>1,337,050</u>	
<b>TOTALS</b>			<u>\$1,589,943</u>	<u>\$44,015</u>	<u>\$1,798,770</u>	<u>\$44,015</u>

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, 2011**

**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.



# 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 16, 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 2011-001, 2011-002, and 2011-007 described in the accompanying schedule of findings and questioned costs 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 and questioned costs as items 2011-001 through 2011-006.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 16, 2012.

The District's responses to the findings we identified 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

November 16, 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, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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 2011-008 in the accompanying schedule of findings and questioned costs, 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, 2011.

### 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 and questioned costs as item 2011-008 to be a material weakness.

The District's responses to the findings we identified 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 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

November 16, 2012

LIBERTY LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I (84.010 and 84.389) Special Education Cluster (84.027 and 84.391) State Fiscal Stabilization Fund (84.394) Education Jobs Fund (84.410)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER - 2011-001**

**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)** provides in part 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** provides in part 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.

Appropriations were not filed with the County until year end. As a result, the District's appropriations never became effective. Therefore, all expenditures in all funds exceeded appropriations during fiscal year 2011.

When the appropriations were filed, some fund expenditures still exceeded appropriations, including the following funds.

Fund	Appropriated	Expended	Difference
General 001	14,690,000	15,706,294	(1,016,294)
Bond Retirement 002	1,638,152	1,844,624	(206,472)
Permanent Improvement 003	231,148	255,884	(24,736)
IDEA B 516	220,356	418,439	(198,033)
SFSF 532	254,824	275,303	(20,479)
Title 1 572	410,570	507,811	(97,241)

**FINDING NUMBER - 2011-001  
(Continued)**

Expending funds in excess of appropriations can put fiscal stress on the District.

The appropriations passed by Board resolution were \$2,594,960 greater than the estimated resources for the General Fund. No other funds could be tested since all estimated resources were at the fund type level, not the fund level.

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 two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**Auditor of States Conclusion:**

We agree the former Treasurers 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 - 2011-002**

**2. Budget Amounts Not Entered Into Accounting System**

**Noncompliance And Material Weakness**

**Ohio Administrative Code 117-2-02(C)** provides in part 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 into the computer accounting system during the year. In addition, budgeted expenditures were not entered into the computer accounting system at the beginning of the year. The budgeted figures entered into the computer accounting system should agree to the certificate of estimated resources and the appropriations passed by the Board of Education and certified by the County.

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 two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**FINDING NUMBER - 2011-002  
(Continued)**

**Auditor of States Conclusion:**

We agree the former Treasurers 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 - 2011-003**

**3. 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 the Ohio Revised Code further provides that 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 two appropriation measures passed by the Board during fiscal year 2011.

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

**Official's Response:** The District relied on its two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**Auditor of States Conclusion:**

We agree the former Treasurers 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 - 2011-004**

**4. Negative Fund Balances**

**Noncompliance**

**Ohio Revised Code Section 5705.10(H)** provides 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.

The District had negative unreserved fund balances at the end of fiscal year 2011 and there were negative balances in funds during the year. Below is an example from year end.

Fund Name (#)	Unreserved Fund Balance
General Fund (001)	(\$219,383.42)
Tax Anticipation Note (002)	(\$44,592)
Workers Compensation Trust (022)	(\$38,215)
EMIS (432)	(\$564)
IDEA B (516)	(\$156,850)
Title I (572)	(\$63,623)
Improve Teacher Quality (590)	(\$25,847)

The last three funds listed above are grant funds. 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 two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**Auditor of States Conclusion:**

We agree the former Treasurers 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 - 2011-005

### 5. Instructional Materials Set Asides

#### Noncompliance

School districts in fiscal watch or caution may apply to the superintendent of public instruction for a waiver from the annual set aside requirement. The waiver may permit the school district to deposit an amount less than the annual set aside requirement or make no deposit into the school district textbook and instructional materials fund and/or the capital and maintenance funds for that year. The superintendent may grant a waiver under division **(B)(3) of Section 3315.17** of the **Ohio Revised Code**, if the school district demonstrates to the satisfaction of the superintendent of public instruction that compliance with the annual set aside requirement for that year will create an undue financial hardship on the school district.

The District did not apply for a waiver from the superintendent of public instruction and did not set aside the required amount of certain general fund revenue amounts, as defined by statute, into various reserves. At the end of fiscal year 2011, the District is required to have \$217,173 in its instructional materials reserve. However, the District set aside no funds.

We recommend the District set aside the appropriate reserve amount each year or apply for a waiver from the superintendent of public instruction.

**Official's Response:** The District relied on its two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

#### **Auditor of States Conclusion:**

We agree the former Treasurers 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 - 2011-006

### 6. Excess Board Payments to SERS

#### Noncompliance – Finding for Recovery

**Ohio Revised Code Section 3309.49** provides in part that each employer shall pay annually to the school employee's retirement system an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees, and shall be known as "the employer contribution." The rate per cent of such contribution shall be fixed by the actuary on the basis of the actuary's evaluation of the liabilities of the school's employees retirement system, but shall not exceed fourteen per cent, and shall be approved by the school employees retirement board.

**Ohio Revised Code Section 3309.47** provides in part that additional contributions may be made to a member's account. This is in excess of the 10 percent contribution that the Board has paid on behalf of some administrative employees.

**FINDING NUMBER - 2011-006  
 (Continued)**

The former Treasurer, Tracey Obermiyer, received Board paid pickup on pickup of 15.4 percent and 11 percent, which is 2.4 percent in excess of District pickup payments to her retirement account in the School Employees Retirement System (SERS) in the amount of \$7,547 and \$5,173 respectively. Ms. Obermiyer's 2001-2002 contract with the District did allow for this excess pickup. However, her 2003-2011 contracts did not contain any such language allowing the 2.4 percent excess pickup.

Fiscal Year	Taxable Wages	Employer Required 14%	Actually paid into SERS	Employer Overpayment	Employee's Required 10%	Actually paid into SERS	Employee Overpayment
2011	\$ 67,300	\$ 9,422	\$ 10,364	\$ 942	\$ 6,730	\$ 7,403	\$ 673
2010	75,761	10,607	11,667	1,061	7,576	8,334	758
2009	70,337	9,847	10,832	985	7,034	7,737	703
2008	68,068	9,530	10,410	880	6,807	7,487	681
2007	67,573	9,460	10,406	946	6,757	7,433	676
2006	66,237	9,273	10,146	873	6,624	7,247	623
2005	55,357	7,750	8,525	775	5,536	6,089	554
2004	51,857	7,260	7,986	726	5,186	5,823	637
2003	25,643	3,590	3,949	359	2,564	2,433	(132)
<b>Total</b>				<b>\$ 7,547</b>			<b>\$ 5,173</b>

While excess payments may be permitted, there is no record of Board approval for the additional SERS pick up paid on behalf of former Treasurer Tracey Obermiyer, in the minutes or in the payroll files of the employee, resulting in overpayments of \$12,720.

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 \$12,720 in favor of the Liberty Local School District, General Fund in the amount of \$12,720.

**Official's Response:** No response provided.

**FINDING NUMBER - 2011-007**

**7. Capital Assets**

**Material Weakness**

The District's Board of Education Policy 7455 states that the definition of a fixed asset has an initial cost that is determined every three years as stated in the administrative guidelines and that a single item that does not meet the threshold amount and is typically purchased in aggregate, can be determined by the Treasurer to verify which items shall be classified as fixed assets. In addition, Policy 7455 states the Superintendent shall develop administrative guidelines to ensure proper purchase, transfer, and disposal of fixed assets.

However the guidelines do not identify the initial cost to determine if a purchased item is a fixed asset, nor have they been updated. The Superintendent's administrative assistant is currently updating the policies and then the guidelines.

The District's fixed asset policy lacks direction to help determine asset classification. For example, the District's fixed asset schedule maintained by an outsourced company states \$5,000 as the threshold, but the amount is not supported by any policy or guideline.

**FINDING NUMBER - 2011-006  
 (Continued)**

The District received House Bill (HB) 264 funds exceeding \$2.3 million designated for the purpose of energy conservation. The GAAP conversion did not capture the \$1.8 million of this funding identified as capital assets that was recorded as maintenance because the fixed asset policy and the guidelines do not provide guidance to determine if the upgrades were maintenance or assets. The HB 264 funds include software for energy efficiency. Software is not listed as an asset in the policies and cannot therefore be assigned as a fixed asset even though the amount was over \$250,000. Updating the policies and the guidelines, should assist the District in properly classifying fixed assets.

We recommend that the District consider addressing their capital asset threshold while updating their policies and administrative guidelines to include all possible fixed assets, including software. We also recommend that the District provide training to those individuals with the responsibility of reporting fixed assets. Implementation of this recommendation may help the District identify those assets which need to be capitalized, thus helping ensure the financials are more properly presented in accordance with Generally Accepted Accounting Principles and items are properly identified for insurance purposes.

**Official's Response:** The District relied on its two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**Auditor of States Conclusion:**

We agree the former Treasurers 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**

<b>Finding Number</b>	2011-008
<b>CFDA Title and Number</b>	State Fiscal Stabilization Fund, CFDA #84.394
<b>Federal Award Number / Year</b>	FY2011
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance And Material Weakness**

**34 CFR 80.20 (b)(7) and 34 CFR 80.21 (a)** provide 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.

**FINDING NUMBER - 2011-008  
(Continued)**

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 2010 through May 2011 totaling \$121,860 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 relied on its two previous Treasurers to satisfy this obligation as part of their responsibilities in their position.

**Auditor of States Conclusion:**

We agree the former Treasurers 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.

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**LIBERTY LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2011**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2010-001	Expenditures Exceeded Appropriations due to Failure to File Documents with the County	No	Not Corrected Reissue as Finding 2011-001
2010-002	Budget Amounts Not Entered Into Accounting System	No	Not Corrected Reissue as Finding 2011-002
2010-003	GAAP Report not Filed Timely	Yes	Finding no longer valid
2010-004	Lack Of 412 Certificate	No	Not Corrected Reissue as Finding 2011-003
2010-005	Failure of Treasurer To Perform Duties	Yes	Finding no longer valid
2010-006	Finding Against Treasurer	No	Not Corrected. Treasurer has not made restitution to the District. Trumbull County Prosecutor could not get a grand jury to indict. Prosecutor will not pursue civilly either.
2010-007	Negative Fund Balances	No	Not Corrected Reissue as Finding 2011-004
2010-008	Mispsted Property Taxes and Community Schools' Transactions	No	Partially Corrected Reissue as a Management Letter comment
2010-009	Cash Reconciliations	No	Partially Corrected Reissue as a Management Letter comment
2010-010	State Fiscal Stabilization Fund – Cash Management	No	Not Corrected Reissue as Finding 2011-008

**LIBERTY LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2011**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2011-001	The Treasurer will monitor appropriations and expenditures closely and record such with the County Auditor by the due dates as set by the Auditor of State.	12/1/12	Treasurer
2011-002	All accounts used for expenditures will require appropriations not exceeding revenue at fiscal yearend.	12/1/12	Treasurer
2011-003	All qualifying contracts will have a signed 412 certificate attached to it.	12/1/12	Treasurer and Board
2011-004	All funds will have a zero (0) balance or greater at June 30 of each fiscal year.	12/1/12	Treasurer
2011-005	A waiver shall be obtained if it is determined that Set-Asides cannot be met for the fiscal year.	12/1/12	Treasurer, Superintendent and Board
2011-006	No contracted employees shall receive an additional pick-up of retirement beyond the state mandated 14%.	12/1/12	Treasurer
2011-007	The fixed asset policy will be revised to meet the recommendations of the Auditor of State.	12/1/12	Treasurer and Board
2011-008	All federal funds will be closely monitored to ensure timely spending.	12/1/12	Treasurer



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Revised Code Section 117.53 states "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Liberty Local School District (the "District") has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on March 14, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

November 16, 2012

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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  
JANUARY 15, 2013