



**Auditor of State
Betty Montgomery**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

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, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that 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, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund and Emergency Levy Fund, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The District also adopted Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditig procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 4, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The 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, 2003. 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 2003 are as follows:

- In total, net assets of governmental activities decreased \$880,010 which represents a 22.63% decrease from 2002.
- General revenues accounted for \$12,912,137 in revenue or 83.23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,601,453 or 16.77% of total revenues of \$15,513,590.
- The District had \$16,393,600 in expenses related to governmental activities; only \$2,601,453 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 \$12,912,137 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, emergency levy fund and debt service fund. The general fund had \$11,572,772 in revenues and \$11,852,644 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance, decreased \$277,011 from \$(220,169) to \$(497,180).
- The emergency levy fund had \$1,609,239 in revenues and \$1,708,698 in expenditures. During fiscal 2003, the emergency levy fund's fund balance decreased \$99,459 from \$(49,134) to \$(148,593).
- The debt service fund had \$821,795 in revenues and \$818,181 in expenditures. During fiscal 2003, the debt service fund's fund balance increased \$3,614 from \$289,853 to \$293,467.

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, emergency levy fund and debt service fund are by far 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, 2003
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes 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.

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, emergency levy fund and debt service fund.

Governmental Funds

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

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 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$ 9,709,671
Capital assets	13,100,525
Total assets	22,810,196
<u>Liabilities</u>	
Current liabilities	9,101,263
Long-term liabilities	10,700,826
Total liabilities	19,802,089
<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,205,525
Restricted	878,676
Unrestricted	(1,076,094)
Total net assets	\$ 3,008,107

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$3,008,107.

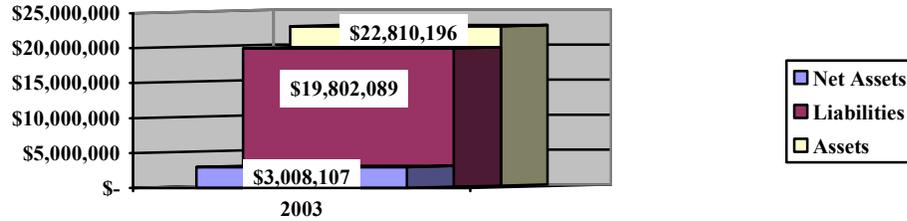
At year-end, capital assets represented 57.43% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$3,205,525. These capital assets are used 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, \$878,676, 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 \$(1,076,094).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,726,202
Operating grants and contributions	848,810
Capital grants and contributions	26,441
General revenues:	
Property taxes	7,229,003
Grants and entitlements	5,575,476
Investment earnings	31,930
Other	75,728
Total revenues	15,513,590

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 6,635,995
Special	1,882,068
Vocational	54,512
Other	1,125,551
Support services:	
Pupil	414,132
Instructional staff	409,246
Board of education	11,359
Administration	1,262,146
Fiscal	401,369
Business	66,447
Operations and maintenance	1,703,477
Pupil transportation	913,149
Central	84,438
Operations of non-instructional services	38,812
Extracurricular activities	489,274
Food service operations	457,391
Interest and fiscal charges	<u>444,234</u>
Total expenses	<u>16,393,600</u>
Decrease in net assets	<u>\$ (880,010)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$880,010. Total governmental expenses of \$16,393,600 were offset by program revenues of \$2,601,453 and general revenues of \$12,912,137. Program revenues supported 15.87% of the total governmental expenses.

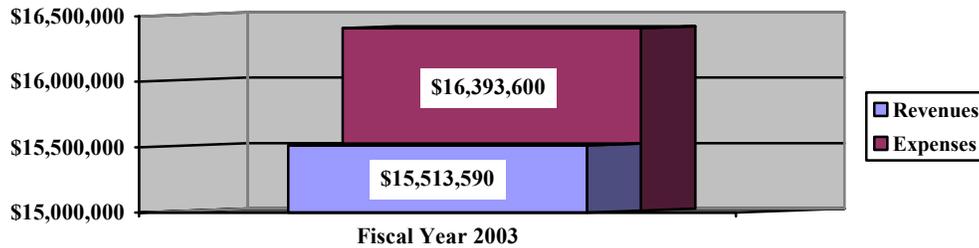
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.54% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

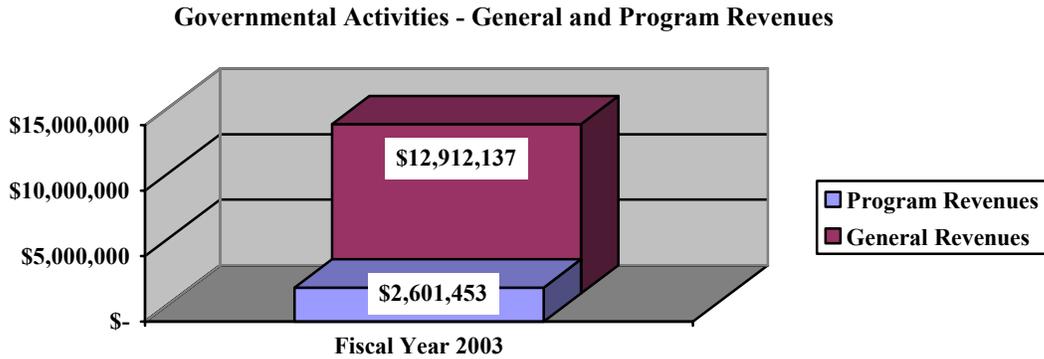
	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 6,635,995	\$ 6,565,582
Special	1,882,068	1,445,585
Vocational	54,512	54,512
Other	1,125,551	(24,142)
Support services:		
Pupil	414,132	388,524
Instructional staff	409,246	284,646
Board of education	11,359	11,359
Administration	1,262,146	1,146,371
Fiscal	401,369	391,705
Business	66,447	66,447
Operations and maintenance	1,703,477	1,703,173
Pupil transportation	913,149	911,453
Central	84,438	55,371
Operations of non-instructional services	38,812	38,812
Extracurricular activities	489,274	339,300
Food service operations	457,391	(30,785)
Interest and fiscal charges	444,234	444,234
Total expenses	<u>\$ 16,393,600</u>	<u>\$ 13,792,147</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The dependence upon tax and other general revenues for governmental activities is apparent, 82.92% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.13%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on pages 15 and 16) reported a combined fund balance of \$63,559, which is lower than last year's total of \$491,978. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance/(Deficit) <u>June 30, 2003</u>	Fund Balance/(Deficit) <u>June 30, 2002</u>	<u>Increase/(Decrease)</u>
General	\$ (497,180)	\$ (220,169)	\$ (277,011)
Emergency Levy	(148,593)	(49,134)	(99,459)
Debt Service	293,467	289,853	3,614
Other Governmental	<u>415,865</u>	<u>471,428</u>	<u>(55,563)</u>
Total	<u>\$ 63,559</u>	<u>\$ 491,978</u>	<u>\$ (428,419)</u>

General Fund

The District's general fund balance decreased by \$277,011 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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	2003 <u>Amount</u>	Restated 2002 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,993,251	\$ 4,936,234	1.16 %
Earnings on investments	30,639	57,541	(46.75) %
Intergovernmental	5,298,566	5,330,000	(0.59) %
Other revenues	<u>1,250,316</u>	<u>60,960</u>	1,951.04 %
Total	<u>\$ 11,572,772</u>	<u>\$ 10,384,735</u>	11.44 %
<u>Expenditures</u>			
Instruction	\$ 7,520,998	\$ 6,472,864	16.19 %
Support services	3,997,555	4,125,482	(3.10) %
Operation of non-instructional services	26,388	22,995	14.76 %
Extracurricular activities	<u>282,627</u>	<u>239,396</u>	18.06 %
Total	<u>\$ 11,827,568</u>	<u>\$ 10,860,737</u>	8.90 %

Emergency Levy Fund

The District's emergency levy fund balance decreased by \$99,459 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement).

Debt Service Fund

The District's debt service fund balance increased by \$3,614 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement).

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$11,609,286, which approximates the original budgeted revenues estimate of \$11,657,776. Actual revenues and other financing sources for fiscal 2003 was \$11,835,064. This represents a \$225,778 increase over final budgeted revenues. This increase is primarily due to conservative tax and intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,981,687 were increased to \$12,119,859 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$12,206,882, which was \$87,023 more than the final budget appropriations. The increases in appropriations were caused by the increases in maintenance and health care costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$13,100,525 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to the restated balances of 2002:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 349,160	\$ 349,160
Land improvements	961,895	1,041,598
Building and improvements	11,330,418	11,784,050
Furniture and equipment	256,661	282,251
Vehicles	<u>202,391</u>	<u>270,888</u>
Total	<u>\$ 13,100,525</u>	<u>\$ 13,727,947</u>

The primary decrease occurred in building improvements, which was due to the increase in threshold and other adjustments to fixed assets. The District acquired \$11,274 in new equipment during fiscal 2003. Total additions to capital assets for 2003 were \$21,274 and there were no disposals. The overall decrease in capital assets of \$627,422 is primarily due to the recording of \$648,696 in depreciation expense for fiscal 2003

Debt Administration

At June 30, 2003, the District had \$9,895,000 in general obligation bonds outstanding. Of this total, \$395,000 is due within one year and \$9,500,000 is due within greater than one year.

In fiscal year 1998, the District passed a 3.60 mill tax levy, providing for construction of the District's new high school. The general obligation bonds are scheduled to mature in fiscal year 2021 and bear an interest rate of 5.23%. Payment of principal and interest being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$10,730,127 with an unvoted debt margin of \$226,856. The District maintains an A-1 bond rating.

For the Future

The District faces many challenges in the future. The District relies heavily on local property taxes. Declining enrollment and changes in ADM calculations for foundation formulas have produced a decrease in state funding. The scheduled decreases in personal and tangible taxes contribute to the critical need for additional new local funding. The District is in a situation where an emergency operating levy will have to be passed by District voters in 2004 in order for the District to obtain the necessary funds to meet its operating expenses in fiscal year 2005. The District will have a 7.9 mill emergency levy on the ballot in August 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Another challenge facing the District in the completion of the campus atmosphere started 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. In addition, the demolition of the old High School remains a priority. The District utilized funds from an Ohio School Facilities Emergency Repair Grant to complete the replacement of the middle school roof. Such funding is being pursued to address the old high school project.

The last major challenge facing the District is the future of state funding. The State of Ohio 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.

The District has anticipated a lower than normal increase in funding due to declining enrollment in future state revenue. The District lost over 40 students in the last two years. The District's main challenge is how to stop this declining enrollment. With decreased state funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy).

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 citizen's 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, Tracey Obermiyer, 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, 2003

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,471,029
Investments	11,927
Receivables:	
Taxes	8,112,257
Accounts	10,440
Intergovernmental	82,875
Materials and supplies inventory	21,143
Capital assets:	
Land	349,160
Depreciable capital assets, net	12,751,365
Total capital assets	13,100,525
 Total assets.	 22,810,196
 Liabilities:	
Accounts payable.	15,039
Accrued wages and benefits	1,223,307
Pension obligation payable.	298,183
Intergovernmental payable	42,861
Deferred revenue	7,272,998
Accrued interest payable	41,117
Claims payable	207,758
Long-term liabilities:	
Due within one year.	510,379
Due in more than one year	10,190,447
 Total liabilities	 19,802,089
 Net Assets:	
Invested in capital assets, net of related debt.	3,205,525
Restricted for:	
Permanent fund - expendable	705
Permanent fund - nonexpendable.	4,687
Debt service.	331,032
Capital projects	110,015
Other purposes	432,237
Unrestricted (deficit).	(1,076,094)
 Total net assets	 \$ 3,008,107

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 6,635,995	\$ 25,345	\$ 45,068	\$ -	\$ (6,565,582)
Special	1,882,068	-	436,483	-	(1,445,585)
Vocational	54,512	-	-	-	(54,512)
Other	1,125,551	1,149,693	-	-	24,142
Support services:					
Pupil	414,132	-	25,608	-	(388,524)
Instructional staff	409,246	-	124,600	-	(284,646)
Board of education	11,359	-	-	-	(11,359)
Administration	1,262,146	115,775	-	-	(1,146,371)
Fiscal	401,369	-	9,664	-	(391,705)
Business	66,447	-	-	-	(66,447)
Operations and maintenance	1,703,477	-	304	-	(1,703,173)
Pupil transportation	913,149	-	1,696	-	(911,453)
Central	84,438	-	2,626	26,441	(55,371)
Operation of non-instructional services	38,812	-	-	-	(38,812)
Extracurricular activities	489,274	149,974	-	-	(339,300)
Food service operations	457,391	285,415	202,761	-	30,785
Interest and fiscal charges	444,234	-	-	-	(444,234)
Totals	\$ 16,393,600	\$ 1,726,202	\$ 848,810	\$ 26,441	(13,792,147)

General Revenues:

Property taxes levied for:	
General purposes	4,940,955
Special Revenue	1,421,524
Debt Service	726,097
Capital Projects	140,427
Grants and entitlements not restricted	
to specific programs	5,575,476
Investment earnings	31,930
Miscellaneous	75,728
Total general revenues	12,912,137
Change in net assets	(880,010)
Net assets at beginning of year	3,888,117
Net assets at end of year	\$ 3,008,107

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<u>General</u>	<u>Emergency Levy</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 394,045	\$ 179,254	\$ 288,223	\$ 416,208
Receivables:				
Taxes	5,540,247	1,586,052	828,490	157,468
Accounts	10,440	-	-	-
Intergovernmental	-	-	-	82,875
Due from other funds	18,351	-	-	-
Materials and supplies inventory	8,409	-	-	7,447
Restricted assets:				
Equity in pooled cash and cash equivalents	99,236	-	-	-
Investments	11,927	-	-	-
Total assets	<u>\$ 6,082,655</u>	<u>\$ 1,765,306</u>	<u>\$ 1,116,713</u>	<u>\$ 663,998</u>
Liabilities:				
Accounts payable	\$ 14,502	\$ -	\$ -	\$ 537
Accrued wages and benefits	815,924	333,949	-	73,434
Compensated absences payable	23,682	-	-	-
Pension obligation payable	179,212	-	-	-
Intergovernmental payable	41,925	-	-	936
Due to other funds	-	4,384	-	13,967
Deferred revenue	5,504,590	1,575,566	823,246	159,259
Total liabilities	<u>6,579,835</u>	<u>1,913,899</u>	<u>823,246</u>	<u>248,133</u>
Fund Balances:				
Reserved for encumbrances	98,255	-	-	82,432
Reserved for materials and supplies inventory	8,409	-	-	7,447
Reserved for property tax unavailable for appropriation	35,657	10,486	5,244	1,049
Reserved for school bus purchase	169,075	-	-	-
Reserved for debt service	-	-	288,223	-
Reserved for perpetual care	-	-	-	4,687
Reserved for permanent fund	-	-	-	705
Unreserved, undesignated (deficit), reported in:				
General fund	(808,576)	-	-	-
Special revenue funds	-	(159,079)	-	234,715
Capital projects funds	-	-	-	84,830
Total fund balances (deficits)	<u>(497,180)</u>	<u>(148,593)</u>	<u>293,467</u>	<u>415,865</u>
Total liabilities and fund balances	<u>\$ 6,082,655</u>	<u>\$ 1,765,306</u>	<u>\$ 1,116,713</u>	<u>\$ 663,998</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total
Governmental
Funds**

\$ 1,277,730
8,112,257
10,440
82,875
18,351
15,856

99,236
11,927

\$ 9,628,672

\$ 15,039
1,223,307
23,682
179,212
42,861
18,351
8,062,661

9,565,113

180,687

15,856

52,436
169,075
288,223
4,687
705

(808,576)
75,636
84,830

63,559

\$ 9,628,672

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$	63,559
<i>Amounts reported for governmental activities in 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.			13,100,525
Donated commodities are not recognized in the funds, however they are recognized as revenue in the statement of activities.			5,287
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	786,823	
Intergovernmental revenue		<u>2,840</u>	
Total			789,663
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 in the statement of net assets.			(113,695)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		9,895,000	
Compensated absences		782,144	
Pension obligation payable		118,971	
Accrued interest payable		<u>41,117</u>	
Total			<u>(10,837,232)</u>
Net assets of governmental activities		\$	<u><u>3,008,107</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**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, 2003

	<u>General</u>	<u>Emergency Levy</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,993,251	\$ 1,436,905	\$ 733,788	\$ 141,966
Charges for services.	-	-	-	285,415
Earnings on investments.	30,639	-	-	705
Extracurricular.	-	-	-	147,102
Other local revenues	1,249,665	-	-	121,047
Other revenues.	651	-	-	-
Intergovernmental - State	5,298,566	172,334	88,007	200,440
Intergovernmental - Federal.	-	-	-	651,397
Total revenues	<u>11,572,772</u>	<u>1,609,239</u>	<u>821,795</u>	<u>1,548,072</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,957,048	1,146,939	-	53,664
Special.	1,392,057	111,643	-	361,414
Vocational.	50,604	-	-	-
Other	1,121,289	-	-	4,262
Support Services:				
Pupil.	348,472	33,322	-	18,332
Instructional staff	217,635	63,702	-	111,063
Board of education	11,359	-	-	-
Administration.	1,016,259	123,975	-	109,744
Fiscal	275,996	114,190	-	10,149
Business	66,447	-	-	-
Operations and maintenance.	1,287,302	48,590	12,451	324,102
Pupil transportation	745,084	53,337	-	29,022
Central.	29,001	13,000	-	40,323
Non-instructional services.	26,388	-	-	12,588
Food service operations	-	-	-	378,854
Extracurricular activities.	282,627	-	-	175,529
Debt service:				
Principal retirement	-	-	360,000	-
Interest and fiscal charges	-	-	445,730	-
Total expenditures	<u>11,827,568</u>	<u>1,708,698</u>	<u>818,181</u>	<u>1,629,046</u>
Excess of revenues under expenditures	<u>(254,796)</u>	<u>(99,459)</u>	<u>3,614</u>	<u>(80,974)</u>
Other financing sources (uses):				
Transfers in.	-	-	-	25,076
Transfers (out)	(25,076)	-	-	-
Proceeds from sale of capital assets.	-	-	-	1,212
Total other financing sources (uses)	<u>(25,076)</u>	<u>-</u>	<u>-</u>	<u>26,288</u>
Net change in fund balances	(279,872)	(99,459)	3,614	(54,686)
Fund balances (deficit) at beginning of year (restated)	(220,169)	(49,134)	289,853	471,428
Increase (decrease) in reserve for inventory.	2,861	-	-	(877)
Fund balances (deficits) at end of year.	<u>\$ (497,180)</u>	<u>\$ (148,593)</u>	<u>\$ 293,467</u>	<u>\$ 415,865</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total
Governmental
Funds**

\$	7,305,910
	285,415
	31,344
	147,102
	1,370,712
	651
	5,759,347
	651,397
	<u>15,551,878</u>
	6,157,651
	1,865,114
	50,604
	1,125,551
	400,126
	392,400
	11,359
	1,249,978
	400,335
	66,447
	1,672,445
	827,443
	82,324
	38,976
	378,854
	458,156
	360,000
	445,730
	<u>15,983,493</u>
	<u>(431,615)</u>
	25,076
	(25,076)
	1,212
	<u>1,212</u>
	(430,403)
	491,978
	1,984
\$	<u><u>63,559</u></u>

**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, 2003

Net change in fund balances - total governmental funds	\$	(430,403)
<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.		(627,422)
Donated commodities are not recognized in the funds, however they are recognized as revenue in the statement of activities.		5,287
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		1,984
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(82,177)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		360,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,496
Some expenses reported in the statement of activities, such as compensated absences and pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(116,679)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		7,904
Change in net assets of governmental activities	\$	(880,010)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**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, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,894,192	\$ 4,953,760	\$ 4,982,635	\$ 28,875
Earnings on investments.	38,837	38,614	39,282	668
Other local revenues.	1,162,163	1,162,386	1,245,673	83,287
Intergovernmental - State	5,562,584	5,454,526	5,298,566	(155,960)
Total revenues	<u>11,657,776</u>	<u>11,609,286</u>	<u>11,566,156</u>	<u>(43,130)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,971,667	5,079,213	5,073,003	6,210
Special.	1,393,435	1,423,577	1,421,837	1,740
Vocational.	42,998	43,928	43,874	54
Other	1,117,033	1,020,727	1,121,289	(100,562)
Support Services:				
Pupil.	333,172	340,379	339,963	416
Instructional staff	226,454	231,353	231,070	283
Board of education	12,075	12,336	12,321	15
Administration.	988,410	1,009,791	1,008,556	1,235
Fiscal	318,565	325,456	325,058	398
Business	64,638	66,037	65,956	81
Operations and maintenance	1,290,712	1,318,631	1,317,020	1,611
Pupil transportation	871,368	890,217	889,129	1,088
Central.	28,559	29,177	29,141	36
Operation of non-instructional services	25,261	25,808	25,776	32
Extracurricular activities.	272,264	278,153	277,813	340
Total expenditures	<u>11,956,611</u>	<u>12,094,783</u>	<u>12,181,806</u>	<u>(87,023)</u>
Excess of revenues over (under) expenditures.	<u>(298,835)</u>	<u>(485,497)</u>	<u>(615,650)</u>	<u>(130,153)</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	228,908	228,908
Transfers (out)	(25,076)	(25,076)	(25,076)	-
Advances in.	-	-	40,000	40,000
Total other financing sources (uses)	<u>(25,076)</u>	<u>(25,076)</u>	<u>243,832</u>	<u>268,908</u>
Net change in fund balance	(323,911)	(510,573)	(371,818)	138,755
Fund balance at beginning of year (restated)	688,022	688,022	688,022	-
Prior year encumbrances appropriated	72,364	72,364	72,364	-
Fund balance at end of year.	<u>\$ 436,475</u>	<u>\$ 249,813</u>	<u>\$ 388,568</u>	<u>\$ 138,755</u>

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)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,433,783	\$ 1,493,783	\$ 1,433,783	\$ (60,000)
Intergovernmental - State	167,404	213,942	172,334	(41,608)
Total revenues	<u>1,601,187</u>	<u>1,707,725</u>	<u>1,606,117</u>	<u>(101,608)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,115,962	1,115,962	1,115,962	-
Special	123,533	123,533	123,533	-
Support Services:				
Pupil	38,135	38,135	38,135	-
Instructional staff	52,711	52,711	52,711	-
Administration	145,997	145,997	145,997	-
Fiscal	117,214	117,214	117,214	-
Operations and maintenance	63,324	63,324	63,324	-
Pupil transportation	49,645	49,645	49,645	-
Central	6,781	6,781	6,781	-
Total expenditures	<u>1,713,302</u>	<u>1,713,302</u>	<u>1,713,302</u>	<u>-</u>
 Net change in fund balance	 (112,115)	 (5,577)	 (107,185)	 (101,608)
 Fund balance at beginning of year	 286,439	 286,439	 286,439	 -
Fund balance at end of year	<u>\$ 174,324</u>	<u>\$ 280,862</u>	<u>\$ 179,254</u>	<u>\$ (101,608)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	<u>\$ 94,063</u>
Total assets	<u>94,063</u>
Liabilities:	
Claims payable	<u>207,758</u>
Total liabilities	<u>207,758</u>
Net assets:	
Unrestricted.	<u>(113,695)</u>
Total net assets	<u><u>\$ (113,695)</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, 2003

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,628,733
Total operating revenues	<u>1,628,733</u>
Operating expenses:	
Claims and administrative services	1,621,415
Total operating expenses	<u>1,621,415</u>
Operating income	<u>7,318</u>
Nonoperating revenues:	
Interest revenue	<u>586</u>
Total nonoperating revenues	<u>586</u>
Change in net assets.	7,904
Net assets at beginning of year	<u>(121,599)</u>
Net assets at end of year	<u>\$ (113,695)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,628,733
Cash payments for claims and administrative services	<u>(1,637,549)</u>
Net cash provided by operating activities	<u>(8,816)</u>
Cash flows from investing activities:	
Interest received	<u>586</u>
Net cash provided by investing activities	<u>586</u>
Net increase in cash and cash equivalents	(8,230)
Cash and cash equivalents at beginning of year	<u>102,293</u>
Cash and cash equivalents at end of year.	<u><u>\$ 94,063</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 7,318
Changes in assets and liabilities:	
Decrease in claims payable	<u>(16,134)</u>
Net cash provided by operating activities	<u><u>\$ (8,816)</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, 2003

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 50,911
Total assets	<u>50,911</u>
Liabilities:	
Due to students	<u>50,911</u>
Total liabilities	<u><u>\$ 50,911</u></u>

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, 2003**

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 314th largest by enrollment among the 740 public and community school districts in the state. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 68 non-certified and 125 certified personnel to provide services to approximately 1,817 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) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do 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". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool 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 organizations' government 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 to organizations resources; the (3) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATION

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-eight school districts and two educational service centers. The 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 principal and a treasurer (non-voting members who must be employed by a participating school district, or fiscal agent of NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information for NEOMIN is available from the Trumbull County Education Service Center (fiscal agent) at 347 North Park Avenue, Warren, Ohio 44481.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Emergency Levy Fund - The Emergency Levy special revenue fund is used to account for the accumulation of tax revenue generated by an emergency tax levy and the use of those funds.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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 cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

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 these levels may only be made by resolution of the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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 express 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 Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, 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 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 any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund 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 in a central bank account. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

During fiscal year 2003, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earning 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 2003 amounted to \$30,639, which includes \$20,057 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 Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

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

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

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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:

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

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. 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, 2003

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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property taxes unavailable for appropriation refunds, school bus purchases, perpetual care and permanent fund. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. 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.

N. 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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

P. 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, however, the amount restricted is limited to the cash available in the general fund. See Note 16 for details.

Q. 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 basis financial statements.

R. 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 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as agency fund, enterprise funds, and expendable trust funds, and non-expendable trust fund have been reclassified and are now part of the general fund and other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	Emergency <u>Levy</u>	Debt <u>Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance					
June 30, 2002	\$ (554,508)	\$ (49,134)	\$ 289,853	\$ 457,623	\$ 143,834
Fund reclassifications	365,641	-	-	13,805	379,446
Implementation of GASB Interpretation No. 6	<u>(31,302)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,302)</u>
Adjusted fund balance, June 30, 2002	<u>\$ (220,169)</u>	<u>\$ (49,134)</u>	<u>\$ 289,853</u>	<u>\$ 471,428</u>	<u>\$ 491,978</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 491,978
GASB 34 adjustments:	
Long-term (deferred) assets	871,840
Capital assets	13,727,947
Long-term liabilities	(11,039,436)
Accrued interest payable	(42,613)
Internal service fund	<u>(121,599)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 3,888,117</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Retained Earnings

Fund balances/retained earnings at June 30, 2003 included the following individual fund deficits:

<u>Major Funds</u>	<u>Deficit</u>
General	\$ 891,225
Emergency Levy	148,593
 <u>Nonmajor Funds</u>	
Management Information System	48
SchoolNet Professional Development	32
Management Information System	
Alternative Schools	
 <u>Proprietary Fund</u>	
Employee Benefits Self-Insurance	113,695

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 or 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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year-end, the District had \$250 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Investments".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$(54,396) and the bank balance was \$15,786. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft due to the "zero-balance" nature of the District's bank accounts. The entire bank balance was covered by FDIC.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> 3	<u>Reported</u> Amount	<u>Fair</u> Value
Repurchase agreements	\$ 221,490	\$ 221,490	\$ 221,490
Common stock *	<u>11,927</u>	11,927	11,927
Total	<u>\$ 233,417</u>		
Investment in STAR Ohio		<u>1,354,596</u>	<u>1,354,596</u>
Total investments		<u>\$ 1,588,013</u>	<u>\$ 1,588,013</u>

* Common stock is not an allowable investment under current Ohio statute, however this stock was bequeathed to the District. No public funds were used to acquire it.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,521,940	\$ 11,927
Investments of the cash management pool:		
Repurchase agreements	(221,490)	221,490
Investment in STAR Ohio	(1,354,596)	1,354,596
Cash on hand	<u>(250)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (54,396)</u>	<u>\$ 1,588,013</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:
General Fund \$25,076

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.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- B. Due to/from other funds consisted of the following at June 30, 2003, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 18,351

The purpose of the amount due to the general fund is the amounts due for the accumulation of workers' compensation and retirement benefits. Interfund loans between governmental funds will be eliminated on the government-wide statements.

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 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 deferred revenue.

The amount available as an advance at June 30, 2003 was \$35,657 in the general fund, \$5,244 in the debt service fund, \$1,049 in the Permanent Improvement capital projects fund, and \$10,486 in the Emergency Levy special revenue fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2002 was \$25,041 in the general fund, \$3,683 in the debt service fund, \$737 in the Permanent Improvement capital projects fund, and \$7,364 in the Emergency Levy special revenue fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 197,268,140	89.31	\$ 201,833,490	88.97
Public utility personal	8,959,870	4.06	9,029,220	3.98
Tangible personal property	<u>14,645,978</u>	<u>6.63</u>	<u>15,993,061</u>	<u>7.05</u>
Total	<u>\$ 220,873,988</u>	<u>100.00</u>	<u>\$ 226,855,771</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 46.35		\$ 43.85	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, internal loans 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	\$ 8,112,257
Accounts	10,440
Intergovernmental	<u>82,875</u>
Total	<u>\$ 8,205,572</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy and due to errors and omissions previously reported as capital assets: (see Note 2.H. for detail)

	<u>Balance 06/30/02</u>	<u>Adjustments</u>	<u>Restated Balance 06/30/02</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 359,310	\$ (10,150)	\$ 349,160
Total capital assets, not being depreciated	<u>359,310</u>	<u>(10,150)</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	685,069	1,290,253	1,975,322
Building/improvements	20,290,663	(1,645,882)	18,644,781
Furniture/equipment	6,009,726	(5,298,133)	711,593
Vehicles	<u>763,064</u>	<u>380,230</u>	<u>1,143,294</u>
Total capital assets, being depreciated	<u>27,748,522</u>	<u>(5,273,532)</u>	<u>22,474,990</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(9,096,203)</u>	<u>(9,096,203)</u>
Governmental activities capital assets, net	<u>\$ 28,107,832</u>	<u>\$ (14,379,885)</u>	<u>\$ 13,727,947</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 349,160	\$ -	\$ -	\$ 349,160
Total capital assets, not being depreciated	<u>349,160</u>	<u>-</u>	<u>-</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,975,322	10,000	-	1,985,322
Building and improvements	18,644,781	-	-	18,644,781
Furniture and equipment	711,593	11,274	-	722,867
Vehicles	1,143,294	-	-	1,143,294
Total capital assets, being depreciated	<u>22,474,990</u>	<u>21,274</u>	<u>-</u>	<u>22,496,264</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(933,724)	(89,703)	-	(1,023,427)
Building and improvements	(6,860,731)	(453,632)	-	(7,314,363)
Furniture and equipment	(429,342)	(36,864)	-	(466,206)
Vehicles	(872,406)	(68,497)	-	(940,903)
Total accumulated depreciation	<u>(9,096,203)</u>	<u>(648,696)</u>	<u>-</u>	<u>(9,744,899)</u>
Governmental activities capital assets, net	<u>\$ 13,727,947</u>	<u>\$ (627,422)</u>	<u>\$ -</u>	<u>\$ 13,100,525</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 434,857
Special	4,759
Vocational	327

Support Services:

Pupil	7,293
Instructional Staff	10,682
Administration	17,590
Operations and Maintenance	20,651
Pupil Transportation	70,833
Central	2,114
Extracurricular Activities	30,886
Food Service Operation	<u>48,704</u>

Total depreciation expense \$ 648,696

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$38,495 from \$716,784 to \$755,279 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$76,821 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$38,326 from \$11,048,605 to \$11,010,279. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Restated Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Building construction bonds	5.23%	\$ 10,255,000	\$ -	\$ (360,000)	\$ 9,895,000	\$ 395,000
Total general obligation bonds payable		<u>\$ 10,255,000</u>	<u>\$ -</u>	<u>\$ (360,000)</u>	<u>\$ 9,895,000</u>	<u>\$ 395,000</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		\$ 755,279	\$ 50,547	\$ -	\$ 805,826	\$ 115,379
Total other long-term obligations		<u>\$ 755,279</u>	<u>\$ 50,547</u>	<u>\$ -</u>	<u>\$ 805,826</u>	<u>\$ 115,379</u>
Total governmental activities		<u>\$ 11,010,279</u>	<u>\$ 50,547</u>	<u>\$ (360,000)</u>	<u>\$ 10,700,826</u>	<u>\$ 510,379</u>

General Obligation Bonds: The current general obligation bonds outstanding, which were issued in fiscal 1998 to provide funds for the construction of a new high school, are general obligations of the District, for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets – governmental activities. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a current 3.60 mill bonded debt tax levy.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2003, are as follows:

<u>Year Ended</u>	General Obligation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 395,000	\$ 429,300	\$ 824,300
2005	425,000	411,047	836,047
2006	455,000	391,020	846,020
2007	490,000	369,040	859,040
2008	525,000	345,056	870,056
2009 - 2013	1,269,948	3,328,018	4,597,966
2014 - 2018	3,605,052	1,216,554	4,821,606
2019 - 2021	2,730,000	215,774	2,945,774
Total	\$ 9,895,000	\$ 6,705,809	\$ 16,600,809

C. 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 effects of these debt limitations at June 30, 2003 are a voted debt margin of \$10,815,486 (including available funds of \$293,467) and an unvoted debt margin of \$226,856.

NOTE 10 - 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, up to a maximum accumulation of thirty days, and an additional 12.5% of leave balance exceeding 120 days, for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, and general liability.

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

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

The District maintains replacement cost insurance on buildings and contents in the amount of \$31,420,401.

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 reductions in amounts of insurance coverage from fiscal 2002.

B. Health Self Insurance

The District has elected to provide employee medical/surgical benefits through a self-insured program. The District maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss of this program. A third-party administrator, Professional Benefits Administrators, Inc. located in Akron, Ohio, reviews, and pays all claims. 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.

The claims liability of \$207,758 reported in the fund at June 30, 2002 is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims cost, including estimated of cost relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal 2003 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>
2003	\$ 223,892	\$ 1,493,595	\$ (1,509,729)	\$ 207,758
2002	156,975	1,416,149	(1,349,232)	223,892

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers' Compensation Group Rating Plan

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$229,189, \$221,292, and \$271,304, respectively; 39% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$139,380, represents the unpaid contribution for fiscal year 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$836,499, \$792,051, and \$853,547, respectively; 84% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$132,752, represents the unpaid contribution for fiscal year 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYEMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$59750 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$111,310 during the 2003 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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>	<u>Emergency Levy</u>
Budget basis	\$ (371,818)	\$ (107,185)
Net adjustment for revenue accruals	6,616	3,122
Net adjustment for expenditure accruals	281,874	4,604
Net adjustment for other sources/uses	(268,908)	-
Adjustment for encumbrances	<u>72,364</u>	<u>-</u>
GAAP basis	<u>\$ (279,872)</u>	<u>\$ (99,459)</u>

NOTE 15 - 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES - (Continued)

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.

C. State School Funding Decision

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.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2002	\$ (3)	\$ -
Current year set-aside requirement	251,363	251,363
Qualifying disbursements	<u>(261,324)</u>	<u>(318,109)</u>
Total	<u>\$ (9,964)</u>	<u>\$ (66,746)</u>
Balance carried forward to FY 2004	<u>\$ (9,964)</u>	<u>\$ -</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases; however, there was not enough cash in the general fund available to restrict the full amount received. Only \$99,236 will be restricted, however, the full amount of \$169,075 will be reserved.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 16 - STATUTORY RESERVES - (Continued)

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

Amount restricted for school bus purchases	<u>\$ 99,236</u>
Total restricted assets	<u><u>\$ 99,236</u></u>

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LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550		\$39,213		\$39,213
National School Lunch Program	LL-P4-2002	10.555	\$37,692		\$37,692	
	LL-P4-2003		113,050		113,050	
Subtotal - National School Lunch Program			<u>150,742</u>	<u>0</u>	<u>150,742</u>	<u>0</u>
Total U.S. Department of Agriculture -- Nutrition Cluster			150,742	39,213	150,742	39,213
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through The Ohio Department of Education:</i>						
Title I - Grants to Local Educational Agencies	C1-S1 01	84.010			5,710	
	C1-S1 02				39,378	
	C1-S1 03		222,732		161,987	
Subtotal - Title 1 - Grants to Local Educational Agencies			<u>222,732</u>	<u>0</u>	<u>207,075</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Title VI - B - Special Education Grants to States	6B-SF-2002	84.027	2,706		30,490	
	6B-SF-2003		83,764		80,782	
Subtotal - Special Education Grants to States			<u>86,470</u>	<u>0</u>	<u>111,272</u>	<u>0</u>
Title VI -Innovative Education Program	C2-S1-02	84.151	2,892		4,363	
Safe and Drug Free Schools Grant	DR-S1-2003	84.186	10,358			
Innovative Education Program Strategies - Chapter 2 Subsidy	CS-S1 2003	84.298	5,003		5,572	
Title II-D - Enhancing Education Through Technology	TJ-S1-2003	84.318	4,781		3,500	
Title VI-R - Class Size Reduction Subsidy	CR-S1 02	84.340			4,061	
Assistive Technology Infusion Projec	AT-S4-2002	84.352	7,703		7,703	
Title II-A, Improving Teacher Qualit	TR-S1-2003	84.367	80,680		69,581	
Total -- U.S. Department of Education			<u>420,619</u>	<u>0</u>	<u>413,127</u>	<u>0</u>
Totals			<u>\$ 571,361</u>	<u>\$ 39,213</u>	<u>\$ 563,869</u>	<u>\$ 39,213</u>

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B — CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C — MATCHING REQUIREMENTS

Certain Federal programs require that the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited the basic financial statements of Liberty Local School District, Trumbull County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 4, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement Number 34 and Interpretation Number 6. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated June 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated June 4, 2004.

This report is intended for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 4, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education

Compliance

We have audited the compliance of Liberty Local School District, Trumbull County, Ohio (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 are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated June 4, 2004.

This report is intended for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 4, 2004

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: Food Distribution Program CFDA #10.550; National School Lunch Program CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: > \$100,000
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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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
OCTOBER 5, 2004**