



**Auditor of State
Betty Montgomery**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of June 30, 2005, and the respective changes in financial position, and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Emergency Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District has restated fund balances due to implementation of GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditures 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 not a required part of the basic financial statements. We subjected the federal awards expenditures schedule to the auditing 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

May 25, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$155,616 which represents 7.37% increase from 2004.
- General revenues accounted for \$14,035,566 in revenue or 84.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,494,369 or 15.09% of total revenues of \$16,529,935.
- The District had \$16,374,319 in expenses related to governmental activities; only \$2,494,369 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,035,566 were 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 \$13,162,609 in revenues and other financing sources and \$11,670,884 in expenditures. During fiscal 2005, the general fund's fund balance, increased \$1,491,146 from a deficit of \$1,528,677 to a deficit of \$37,531.
- The emergency levy fund had \$2,241,298 in revenues and other financing sources and \$2,202,616 in expenditures. During fiscal 2005, the emergency levy fund's fund balance increased \$38,682 from deficit balances of \$95,264 to \$56,582.
- The debt service fund had \$901,796 in revenues and \$849,803 in expenditures. During fiscal 2005, the debt service fund's fund balance increased \$51,993 from \$315,669 to \$367,662.

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, 2005
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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, 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. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 9,726,643	\$ 9,155,704
Capital assets	<u>12,337,529</u>	<u>12,958,027</u>
Total assets	<u>22,064,172</u>	<u>22,113,731</u>
<u>Liabilities</u>		
Current liabilities	7,985,653	9,675,403
Long-term liabilities	<u>11,811,912</u>	<u>10,327,337</u>
Total liabilities	<u>19,797,565</u>	<u>20,002,740</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,262,529	3,458,027
Restricted	1,013,835	668,925
Unrestricted (deficit)	<u>(2,009,757)</u>	<u>(2,015,961)</u>
Total net assets	<u>\$ 2,266,607</u>	<u>\$ 2,110,991</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$2,266,607.

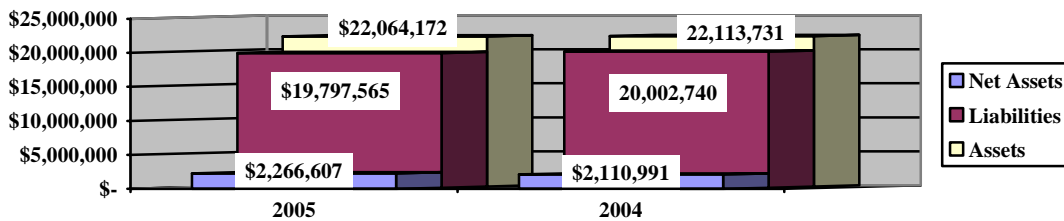
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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At year-end, capital assets represented 55.92% 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, 2005, were \$3,262,529. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,013,835, 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 \$2,009,757.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,110,901	\$ 1,949,557
Operating grants and contributions	1,351,823	804,697
Capital grants and contributions	31,645	478,000
General revenues:		
Property taxes	7,320,535	7,252,043
Grants and entitlements	6,614,888	5,799,138
Investment earnings	35,389	20,396
Other	<u>64,754</u>	<u>144,962</u>
Total revenues	<u>16,529,935</u>	<u>16,448,793</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program revenues:		
Instruction:		
Regular	\$ 6,557,090	\$ 6,770,857
Special	2,337,242	2,173,548
Vocational	59,711	58,308
Other	375,154	1,170,999
Support services:		
Pupil	389,144	453,249
Instructional staff	547,357	433,114
Board of education	4,015	13,271
Administration	1,384,480	1,299,517
Fiscal	557,370	428,883
Business	68,284	214,639
Operations and maintenance	1,723,190	1,611,318
Pupil transportation	925,710	1,178,880
Central	49,736	50,235
Operations of non-instructional services	27,893	51,551
Extracurricular activities	363,405	467,840
Food service operations	592,724	542,041
Interest and fiscal charges	<u>411,814</u>	<u>427,659</u>
Total Expenses	<u>16,374,319</u>	<u>17,345,909</u>
Changes in net assets	155,616	(897,116)
Net assets at beginning of year	<u>2,110,991</u>	<u>3,008,107</u>
Net assets at end of year	<u><u>\$ 2,266,607</u></u>	<u><u>\$ 2,110,991</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$155,616. Total governmental expenses of \$16,374,319 were offset by program revenues of \$2,494,369 and general revenues of \$14,035,566. Program revenues supported 15.23% of the total governmental expenses.

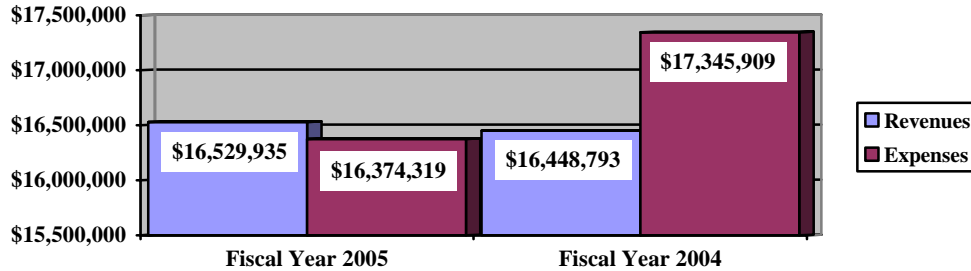
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 84.30% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

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.

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 6,557,090	\$ 5,957,164	\$ 6,770,857	\$ 6,528,448
Special	2,337,242	1,820,199	2,173,548	1,808,475
Vocational	59,711	59,711	58,308	58,308
Other	375,154	370,286	1,170,999	(17,875)
Support services:				
Pupil	389,144	373,658	453,249	431,447
Instructional staff	547,357	290,083	433,114	346,311
Board of education	4,015	4,015	13,271	13,271
Administration	1,384,480	1,256,631	1,299,517	1,195,468
Fiscal	557,370	537,842	428,883	422,235
Business	68,284	58,933	214,639	214,639
Operations and maintenance	1,723,190	1,687,244	1,611,318	1,133,016
Pupil transportation	925,710	915,065	1,178,880	1,171,104
Central	49,736	32,386	50,235	36,720
Operations of non-instructional services	27,893	27,893	51,551	51,551
Extracurricular activities	363,405	146,976	467,840	277,700
Food service operations	592,724	(69,950)	542,041	15,178
Interest and fiscal charges	411,814	411,814	427,659	427,659
Total expenses	<u>\$ 16,374,319</u>	<u>\$ 13,879,950</u>	<u>\$ 17,345,909</u>	<u>\$ 14,113,655</u>

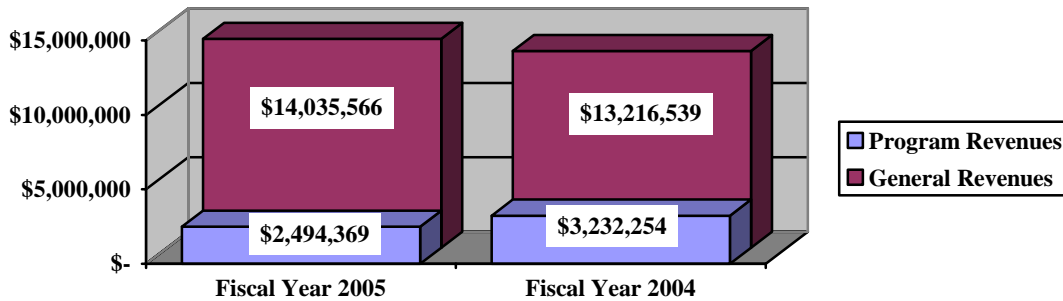
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The dependence upon tax and other general revenues for governmental activities is apparent, 87.97% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.77%. 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 years 2005 and 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$616,602, which is greater than last year's deficit of \$1,124,021. The June 30, 2004 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, 2005 and 2004.

	Fund Balance/(Deficit) June 30, 2005	Restated Fund Balance/(Deficit) June 30, 2004	Increase/(Decrease)
General	\$ (37,531)	\$(1,528,677)	\$ 1,491,146
Emergency Levy	(56,582)	(95,264)	38,682
Debt Service	367,662	315,669	51,993
Other Governmental	343,053	184,251	158,802
Total	<u>\$ 616,602</u>	<u>\$(1,124,021)</u>	<u>\$ 1,740,623</u>

General Fund

The District's general fund balance increased \$1,491,146. 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, 2005
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	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,890,791	\$ 4,860,340	0.63 %
Earnings on investments	34,844	19,636	77.45 %
Intergovernmental	6,183,546	5,511,358	12.20 %
Other revenues	<u>899,629</u>	<u>1,406,328</u>	(36.03) %
Total	<u>\$ 12,008,810</u>	<u>\$ 11,797,662</u>	1.79 %
<u>Expenditures</u>			
Instruction	\$ 7,147,027	\$ 7,934,489	(9.92) %
Support services	4,225,145	4,678,533	(9.69) %
Operation of non-instructional services	27,344	29,556	(7.48) %
Extracurricular activities	<u>271,368</u>	<u>279,818</u>	(3.02) %
Total	<u>\$ 11,670,884</u>	<u>\$ 12,922,396</u>	(9.68) %

Emergency Levy Fund

The emergency levy fund had \$2,241,298 in revenues and other financing sources and \$2,202,616 in expenditures. During fiscal 2005, the emergency levy fund's fund balance increased \$38,682 from deficit balances of \$95,264 to \$56,582.

Debt Service Fund

The debt service fund had \$901,796 in revenues and \$849,803 in expenditures. During fiscal 2005, the debt service fund's fund balance increased \$51,993 from \$315,669 to \$367,662.

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 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$12,395,603, which approximates the original budgeted revenues estimate of \$10,554,991. Actual revenues and other financing sources for fiscal 2005 was \$13,277,101. This represents an \$881,498 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 \$11,123,646 were increased to \$11,349,312 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$12,192,136, which was \$842,824 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, 2005
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$12,337,529 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 2005 balances compared to the balances of 2004:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 349,160	\$ 349,160
Land improvements	781,987	871,941
Building and improvements	10,909,072	11,358,745
Furniture and equipment	208,641	232,651
Vehicles	<u>88,669</u>	<u>145,530</u>
Total	<u>\$ 12,337,529</u>	<u>\$ 12,958,027</u>

The overall decrease in capital assets is due to the recording of \$620,498 in depreciation expense for fiscal 2005.

Debt Administration

At June 30, 2005, the District had \$9,075,000 in general obligation bonds outstanding and \$1,776,000 in newly issued tax anticipation notes. Of this total, \$455,000 is due within one year and \$10,396,000 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 are being made from the debt service fund.

At June 30, 2005, the District's overall legal debt margin was \$11,606,262 with an unvoted debt margin of \$225,707. The District maintains an A-1 bond rating.

Current Financial Related Activities

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 passed a 7.9 mill emergency operating levy in May of 2005. In order to meet its obligations to end fiscal year 2005, the District borrowed against future levy collections in the maximum amount allowable, \$1,776,000. The tax anticipation notes will be paid back over a five year period.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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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. The Board declared "urgent necessity" for demolition of the old High School with a portion for remain as district wide storage.

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 added an open enrollment policy effective for the 2004-2005 school year. An anticipated enrollment of 110 students would have allowed the district to remain fiscally sound for the 2005 fiscal year. Unfortunately, when student transfers out were taken into account, the net effect of the open enrollment policy was plus 32 students.

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, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,388,653
Investments	21,256
Receivables:	
Taxes	7,045,961
Accounts	52,021
Intergovernmental	200,446
Materials and supplies inventory	18,306
Capital assets:	
Land	349,160
Depreciable capital assets, net	11,988,369
Total capital assets, net	<u>12,337,529</u>
 Total assets.	 <u>22,064,172</u>
 Liabilities:	
Accounts payable.	106,642
Accrued wages and benefits	1,022,637
Pension obligation payable.	310,757
Intergovernmental payable	122,529
Deferred revenue	6,089,118
Accrued interest payable	40,242
Claims payable	293,728
Long-term liabilities:	
Due within one year.	598,913
Due in more than one year	11,212,999
 Total liabilities	 <u>19,797,565</u>
 Net Assets:	
Invested in capital assets, net of related debt	3,262,529
Restricted for:	
Permanent fund - nonexpendable.	4,269
Debt service	420,079
Capital projects.	43,095
Locally funded programs	947
State funded programs	68,300
Federally funded programs	146,855
Student activities.	34,543
Other purposes	295,747
Unrestricted (deficit).	<u>(2,009,757)</u>
 Total net assets	 <u>\$ 2,266,607</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	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	\$ 6,557,090	\$ 400,811	\$ 182,630	\$ 16,485	\$ (5,957,164)
Special	2,337,242	-	517,043	-	(1,820,199)
Vocational	59,711	-	-	-	(59,711)
Other	375,154	-	4,868	-	(370,286)
Support services:					
Pupil	389,144	-	15,486	-	(373,658)
Instructional staff	547,357	-	257,274	-	(290,083)
Board of education	4,015	-	-	-	(4,015)
Administration	1,384,480	96,697	31,152	-	(1,256,631)
Fiscal	557,370	-	19,528	-	(537,842)
Business	68,284	-	9,351	-	(58,933)
Operations and maintenance	1,723,190	-	20,786	15,160	(1,687,244)
Pupil transportation	925,710	-	10,645	-	(915,065)
Central	49,736	-	17,350	-	(32,386)
Operation of non-instructional services	27,893	-	-	-	(27,893)
Extracurricular activities	363,405	216,429	-	-	(146,976)
Food service operations	592,724	396,964	265,710	-	69,950
Interest and fiscal charges	411,814	-	-	-	(411,814)
Totals	\$ 16,374,319	\$ 1,110,901	\$ 1,351,823	\$ 31,645	(13,879,950)

General Revenues:

Property taxes levied for:	
General purposes	4,929,701
Special Revenue	1,450,107
Debt Service	800,636
Capital Projects	140,091
Grants and entitlements not restricted	
to specific programs	6,614,888
Investment earnings	35,389
Miscellaneous	64,754
Total general revenues	14,035,566
Change in net assets	155,616
Net assets at beginning of year	2,110,991
Net assets at end of year	\$ 2,266,607

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Emergency Levy</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 762,461	\$ 179,254	\$ 364,637	\$ 495,091	\$ 1,801,443
Receivables:					
Taxes	4,736,985	1,450,400	703,125	155,451	7,045,961
Accounts	23,881	-	-	12,079	35,960
Intergovernmental	-	-	-	200,446	200,446
Advances to other funds	21,634	20,602	-	-	42,236
Materials and supplies inventory	9,480	-	-	8,826	18,306
Restricted assets:					
Equity in pooled cash and cash equivalents	295,747	-	-	-	295,747
Investments	21,256	-	-	-	21,256
Total assets	\$ 5,871,444	\$ 1,650,256	\$ 1,067,762	\$ 871,893	\$ 9,461,355
Liabilities:					
Accounts payable	\$ 89,971	\$ -	\$ -	\$ 16,671	\$ 106,642
Accrued wages and benefits	672,425	262,790	-	87,422	1,022,637
Compensated absences payable	48,109	-	-	5,068	53,177
Pension obligation payable	268,092	-	-	42,665	310,757
Intergovernmental payable	113,662	-	-	8,867	122,529
Advances from other funds	-	-	-	42,236	42,236
Deferred revenue	4,716,716	1,444,048	700,100	325,911	7,186,775
Total liabilities	5,908,975	1,706,838	700,100	528,840	8,844,753
Fund Balances:					
Reserved for encumbrances	29,073	-	-	47,430	76,503
Reserved for materials and supplies inventory	9,480	-	-	8,826	18,306
Reserved for property tax unavailable for appropriation	20,269	6,352	3,025	605	30,251
Reserved for school bus purchase	116,388	-	-	-	116,388
Reserved for textbooks/instructional supplies	179,359	-	-	-	179,359
Reserved for debt service	-	-	364,637	-	364,637
Reserved for advances	21,634	20,602	-	-	42,236
Reserved for permanent fund	-	-	-	4,269	4,269
Unreserved, undesignated (deficit), reported in:					
General fund	(413,734)	-	-	-	(413,734)
Special revenue funds	-	(83,536)	-	257,965	174,429
Capital projects funds	-	-	-	23,958	23,958
Total fund balances (deficits)	(37,531)	(56,582)	367,662	343,053	616,602
Total liabilities and fund balances	\$ 5,871,444	\$ 1,650,256	\$ 1,067,762	\$ 871,893	\$ 9,461,355

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund deficit		\$ 616,602
<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.		12,337,529
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 926,592	
Intergovernmental revenue	171,065	
Total		1,097,657
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.		13,796
In the statement of activities interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.		(40,242)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	9,075,000	
Tax anticipation notes	1,776,000	
Compensated absences	907,735	
Total		(11,758,735)
Net assets of governmental activities		\$ 2,266,607

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, 2005

	General	Emergency Levy	Debt Service	Other Governmental Funds
Revenues:				
From local sources:				
Taxes	\$ 4,890,791	\$ 1,426,672	\$ 802,109	\$ 138,674
Tuition.	380,033	-	-	-
Charges for services.	-	-	-	396,964
Earnings on investments	34,844	-	-	-
Extracurricular	108,974	-	-	107,455
Classroom materials and fees.	20,778	-	-	96,697
Other local revenues	389,844	-	-	35,946
Intergovernmental - State	6,183,546	177,213	99,687	178,205
Intergovernmental - Federal	-	-	-	827,604
Total revenues.	<u>12,008,810</u>	<u>1,603,885</u>	<u>901,796</u>	<u>1,781,545</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,894,582	1,219,562	-	74,988
Special.	1,820,447	51,820	-	455,270
Vocational.	58,811	-	-	-
Other.	373,187	-	-	1,967
Support Services:				
Pupil.	359,889	16,069	-	1,181
Instructional staff	167,107	240,801	-	148,197
Board of education	4,015	-	-	-
Administration.	1,200,083	67,737	-	114,678
Fiscal	338,793	243,328	-	-
Business	67,804	-	-	480
Operations and maintenance.	1,311,399	230,651	13,755	176,185
Pupil transportation	746,228	132,648	-	-
Central.	29,827	-	-	17,795
Operation of non-instructional services	27,344	-	-	549
Food service operations	-	-	-	540,055
Extracurricular activities.	271,368	-	-	89,024
Debt service:				
Principal retirement	-	-	425,000	-
Interest and fiscal charges	-	-	411,048	-
Total expenditures	<u>11,670,884</u>	<u>2,202,616</u>	<u>849,803</u>	<u>1,620,369</u>
Excess of revenues over(under) expenditures	<u>337,926</u>	<u>(598,731)</u>	<u>51,993</u>	<u>161,176</u>
Other financing sources:				
Sale of capital assets	15,212	-	-	50
Sale of notes	1,138,587	637,413	-	-
Total other financing sources.	<u>1,153,799</u>	<u>637,413</u>	<u>-</u>	<u>50</u>
Net change in fund balances	1,491,725	38,682	51,993	161,226
Fund balances (deficit) at beginning of year(restated)				
	(1,528,677)	(95,264)	315,669	184,251
Decrease in reserve for inventory				
	(579)	-	-	(2,424)
Fund balances (deficits) at end of year.	<u>\$ (37,531)</u>	<u>\$ (56,582)</u>	<u>\$ 367,662</u>	<u>\$ 343,053</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total
Governmental
Funds**

\$ 7,258,246
380,033
396,964
34,844
216,429
117,475
425,790
6,638,651
827,604

16,296,036

6,189,132
2,327,537
58,811
375,154

377,139
556,105
4,015
1,382,498
582,121
68,284
1,731,990
878,876
47,622
27,893
540,055
360,392

425,000
411,048

16,343,672

(47,636)

15,262
1,776,000

1,791,262

1,743,626

(1,124,021)
(3,003)

\$ 616,602

**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, 2005

Net change in fund balances - total governmental funds	\$	1,743,626
<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 exceeds capital outlays in the current period.		(620,498)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		(3,003)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	\$ 62,289	
Intergovernmental revenues	<u>171,065</u>	
		233,354
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		425,000
Proceeds of tax anticipation notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(1,776,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(766)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(105,999)
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.		<u>259,902</u>
Change in net assets of governmental activities	\$	<u><u>155,616</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 3,769,472	\$ 4,519,027	\$ 4,878,001	\$ 358,974
Tuition.	287,641	344,838	372,231	27,393
Earnings on investments.	21,850	26,195	28,276	2,081
Extracurricular.	83,951	100,644	108,639	7,995
Classroom material & fees.	15,888	19,048	20,561	1,513
Other local revenues.	299,201	358,697	387,190	28,493
Intergovernmental - State	4,778,331	5,728,497	6,183,546	455,049
Total revenues	9,256,334	11,096,946	11,978,444	881,498
Expenditures:				
Current:				
Instruction:				
Regular	4,341,991	4,438,580	4,787,582	(349,002)
Special.	1,615,597	1,651,536	1,781,395	(129,859)
Vocational.	51,475	52,620	56,757	(4,137)
Other	348,732	348,732	376,153	(27,421)
Support Services:				
Pupil.	326,728	333,996	360,258	(26,262)
Instructional staff	145,156	148,385	160,052	(11,667)
Board of education	4,848	4,955	5,345	(390)
Administration.	958,089	979,401	1,056,411	(77,010)
Fiscal	286,685	293,062	316,105	(23,043)
Business	115,097	117,658	126,909	(9,251)
Operations and maintenance	1,245,863	1,273,577	1,373,717	(100,140)
Pupil transportation.	772,189	789,367	851,434	(62,067)
Central	26,086	26,666	28,763	(2,097)
Operation of non-instructional services	25,350	25,914	27,952	(2,038)
Extracurricular activities.	229,417	234,520	252,960	(18,440)
Total expenditures	10,493,303	10,718,969	11,561,793	(842,824)
Excess of revenues over (under) expenditures.	(1,236,969)	377,977	416,651	38,674
Other financing sources (uses):				
Refund of prior year expenditure	144,858	144,858	144,858	-
Other miscellaneous use of funds	(630,343)	(630,343)	(630,343)	-
Sale of capital assets	15,212	15,212	15,212	-
Sale of notes	1,138,587	1,138,587	1,138,587	-
Total other financing sources (uses)	668,314	668,314	668,314	-
Net change in fund balance	(568,655)	1,046,291	1,084,965	38,674
Fund balance (deficit) at beginning of year.	(158,781)	(158,781)	(158,781)	-
Prior year encumbrances appropriated . .	70,275	70,275	70,275	-
Fund balance (deficit) at end of year	\$ (657,161)	\$ 957,785	\$ 996,459	\$ 38,674

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,418,451	\$ 1,418,451	\$ 1,422,519	\$ 4,068
Intergovernmental - State	176,706	176,706	177,213	507
Total revenues	<u>1,595,157</u>	<u>1,595,157</u>	<u>1,599,732</u>	<u>4,575</u>
Expenditures:				
Current:				
Instruction:				
Regular	598,250	1,478,454	1,214,950	263,504
Special	36,861	91,094	74,858	16,236
Support Services:				
Pupil	11,355	28,063	23,061	5,002
Instructional staff	124,132	306,768	252,093	54,675
Administration	33,354	82,428	67,737	14,691
Fiscal	119,816	296,102	243,328	52,774
Operations and maintenance	113,574	280,676	230,651	50,025
Pupil transportation	69,893	172,727	141,942	30,785
Central	3,722	9,197	7,558	1,639
Total expenditures	<u>1,110,957</u>	<u>2,745,509</u>	<u>2,256,178</u>	<u>489,331</u>
Excess of revenues over (under) expenditures	<u>484,200</u>	<u>(1,150,352)</u>	<u>(656,446)</u>	<u>493,906</u>
Other financing sources:				
Refund of prior year expenditure	5,574	5,574	5,574	-
Sale of notes	637,413	637,413	637,413	-
Total other financing sources	<u>642,987</u>	<u>642,987</u>	<u>642,987</u>	<u>-</u>
Net change in fund balance	1,127,187	(507,365)	(13,459)	493,906
Fund balance at beginning of year	<u>192,713</u>	<u>192,713</u>	<u>192,713</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,319,900</u>	<u>\$ (314,652)</u>	<u>\$ 179,254</u>	<u>\$ 493,906</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents. . .	\$ 291,463
Receivables:	
Accounts	16,061
Total assets	307,524
Liabilities:	
Claims payable	293,728
Total liabilities	293,728
Net assets:	
Unrestricted.	13,796
Total net assets	\$ 13,796

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, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,333,790
Total operating revenues	<u>2,333,790</u>
 Operating expenses:	
Claims expense	<u>2,074,433</u>
Total operating expenses	<u>2,074,433</u>
 Operating revenue.	<u>259,357</u>
 Nonoperating revenues:	
Interest revenue.	<u>545</u>
Total nonoperating revenues	<u>545</u>
 Change in net assets.	259,902
 Net assets at beginning of year	<u>(246,106)</u>
 Net assets at end of year	<u>\$ 13,796</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, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,317,729
Cash payments for claims and administrative services	<u>(2,053,117)</u>
Net cash provided by operating activities	<u>264,612</u>
Cash flows from investing activities:	
Interest received	<u>545</u>
Net cash provided by investing activities	<u>545</u>
Net increase in cash and cash equivalents	265,157
Cash and cash equivalents at beginning of year	<u>26,306</u>
Cash and cash equivalents at end of year.	<u><u>\$ 291,463</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 259,357
Changes in assets and liabilities:	
Increase in accounts receivable.	(16,061)
Increase in claims payable	<u>21,316</u>
Net cash provided by operating activities	<u><u>\$ 264,612</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, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 45,505
Total assets	\$ 45,505
Liabilities:	
Accounts payable.	\$ 2,395
Due to students.	43,110
Total liabilities.	\$ 45,505

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 304th largest by enrollment among the 614 public school districts in the state. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 64 non-certified and 122 certified personnel to provide services to approximately 1,801 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations 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 these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). 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, 2005

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, 2005

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.

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the 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.

**LIBERTY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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).

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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, 2005

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 original and final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at 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, 2005

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

During fiscal year 2005, 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 2005. 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, 2005.

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 2005 amounted to \$34,844, which includes \$25,250 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, 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, 2005

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 capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities <u>Estimated Lives</u>
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, 2005**

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, school bus purchases, textbooks/instructional supplies, permanent fund and advances. 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, 2005

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 and textbook and instructional supplies. 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 basic 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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>General</u>	Emergency <u>Levy</u>	Debt <u>Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (1,437,385)	\$ (95,264)	\$ 315,669	\$ 208,790	(1,008,190)
GASB Technical Bulletin No. 2004-2	<u>(91,292)</u>	<u>-</u>	<u>-</u>	<u>(24,539)</u>	<u>(115,831)</u>
Restated Fund Balance, June 30, 2004	<u>\$ (1,528,677)</u>	<u>\$ (95,264)</u>	<u>\$ 315,669</u>	<u>\$ 184,251</u>	<u>(1,124,021)</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ 37,531
Emergency Levy	56,582
<u>Nonmajor Funds</u>	
IDEA, Part B, Special Education	9,666
Title I, Disadvantaged Children	43,163

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal 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 result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the District had \$250 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$224,642, exclusive of the \$90,838 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, District's entire bank balance of \$16,698 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 90,838	\$ 90,838
STAR Ohio	2,118,428	2,118,428
Common Stock *	21,256	21,256
	<u>\$ 2,230,522</u>	<u>\$ 2,230,522</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.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a AAAM money market rating.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 90,838	4.07%
STAR Ohio	2,118,428	94.98%
Common Stock	21,256	0.95%
	<u>\$ 2,230,522</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 224,642
Investments	2,230,522
Cash on hand	<u>250</u>
Total	<u>\$ 2,455,414</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,409,909
Agency funds	<u>45,505</u>
Total	<u>\$ 2,455,414</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Advances to/from other funds consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 21,634
Emergency Levy	Nonmajor Governmental Funds	20,602

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances were interfund loans which were not repaid in the current fiscal year.

Advances to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported 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, 2005**

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 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, 2005 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, 2005 was \$20,269 in the general fund, \$3,025 in the debt service fund, \$605 in the Permanent Improvement capital projects fund, and \$6,352 in the Emergency Levy special revenue fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$7,479 in the general fund, \$1,210 in the debt service fund, \$220 in the Permanent Improvement capital projects fund, and \$2,199 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 202,446,910	91.85	\$ 204,589,690	90.65
Public utility personal	8,650,150	2.11	8,675,310	3.84
Tangible personal property	<u>13,308,398</u>	<u>6.04</u>	<u>12,441,667</u>	<u>5.51</u>
Total	<u>\$ 224,405,458</u>	<u>100.00</u>	<u>\$ 225,706,667</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$44.40		\$45.80	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 7,045,961
Accounts	52,021
Intergovernmental	<u>200,446</u>
Total	<u>\$ 7,298,428</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/05</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	1,985,322	-	-	1,985,322
Building and improvements	19,122,781	-	-	19,122,781
Furniture and equipment	722,867	-	-	722,867
Vehicles	1,143,294	-	-	1,143,294
Total capital assets, being depreciated	<u>22,974,264</u>	<u>-</u>	<u>-</u>	<u>22,974,264</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,113,381)	(89,954)	-	(1,203,335)
Building and improvements	(7,764,036)	(449,673)	-	(8,213,709)
Furniture and equipment	(490,216)	(24,010)	-	(514,226)
Vehicles	(997,764)	(56,861)	-	(1,054,625)
Total accumulated depreciation	<u>(10,365,397)</u>	<u>(620,498)</u>	<u>-</u>	<u>(10,985,895)</u>
Governmental activities capital assets, net	<u>\$ 12,958,027</u>	<u>\$ (620,498)</u>	<u>\$ -</u>	<u>\$ 12,337,529</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 453,978
Special	4,731
Vocational	327

Support Services:

Pupil	7,219
Instructional Staff	10,576
Administration	11,772
Operations and Maintenance	19,691
Pupil Transportation	58,719
Central	2,114
Extracurricular Activities	3,013
Food Service Operation	<u>48,358</u>

Total depreciation expense \$ 620,498

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>Outstanding</u> <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Outstanding</u> <u>06/30/05</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Building construction bonds	5.23%	\$ 9,500,000	\$ -	\$ (425,000)	\$ 9,075,000	\$ 455,000
Tax anticipation notes	3.47%	-	1,776,000	-	1,776,000	-
<u>Other Long-Term Obligations:</u>						
Compensated absences		<u>827,337</u>	<u>252,997</u>	<u>(119,422)</u>	<u>960,912</u>	<u>143,913</u>
Total governmental activities		<u>\$ 10,327,337</u>	<u>\$ 2,028,997</u>	<u>\$ (544,422)</u>	<u>\$ 11,811,912</u>	<u>\$ 598,913</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 general long-term debt obligations group. 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.

- B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005, are as follows:

<u>Year Ended</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 455,000	\$ 391,020	\$ 846,020
2007	490,000	369,040	859,040
2008	525,000	345,056	870,056
2009	278,017	614,569	892,586
2010	266,351	641,236	907,587
2011 - 2015	2,025,632	3,029,630	5,055,262
2016 - 2020	4,135,000	1,020,466	5,155,466
2021	<u>900,000</u>	<u>95,681</u>	<u>995,681</u>
Total	<u>\$ 9,075,000</u>	<u>\$ 6,506,698</u>	<u>\$ 15,581,698</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. The tax anticipation notes described below have been issued in anticipation of tax revenue. The notes were issued on June 16, 2005, mature on December 10, 2010 and have an interest rate of 3.47%. These notes were backed by the full faith and credit of the District. Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2005, are as follows:

<u>Year Ended</u>	Tax Anticipation Notes		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 59,059	\$ 59,059
2007	355,200	55,464	410,664
2008	355,200	43,139	398,339
2009	355,200	30,814	386,014
2010	355,200	18,488	373,688
2011	355,200	6,163	361,363
Total	\$ 1,776,000	\$ 213,127	\$ 1,989,127

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$11,606,262 (including available funds of \$367,662) and an unvoted debt margin of \$225,707.

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, 2005

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 reduction in amounts of insurance coverage from fiscal 2004.

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 \$293,728 reported in the fund at June 30, 2005 is based on the requirements of GASB Statement No. 30, 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 2005 are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2005	\$ 272,412	\$ 2,074,433	\$ (2,053,117)	\$ 293,728
2004	\$ 207,758	\$ 1,935,656	\$ (1,871,002)	\$ 272,412

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers' Compensation Group Rating Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 total required contributions to SERS, for pension obligations and health care benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$245,577, \$232,531 and \$229,189, respectively; 47.12% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$129,852 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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. 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 10% 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 years 2005 and 2004, 13% 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 total required contributions to the DB plan, pension obligations and health care benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$893,458, \$868,856, and \$836,499, respectively; 83.93% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$143,576 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$5,583 made by the District and \$13,973 made by plan members.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, four members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$63,818 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$97,495 during the 2005 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (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	\$ 1,084,965	\$ (13,459)
Net adjustment for revenue accruals	30,366	4,153
Net adjustment for expenditure accruals	(1,105,550)	(125,692)
Net adjustment for other sources/uses	485,485	(5,574)
Adjustment for encumbrances	<u>996,459</u>	<u>179,254</u>
GAAP basis	<u>\$ 1,491,725</u>	<u>\$ 38,682</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

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 statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continue to be a set-aside for budget stabilization.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - STATUTORY RESERVES – (Continued)

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ 88,931	\$ -
Current year set-aside requirement	257,647	257,647
Qualifying disbursements	<u>(167,219)</u>	<u>(452,026)</u>
Total	<u>\$ 179,359</u>	<u>\$ (194,379)</u>
Balance carried forward to FY 2006	<u>\$ 179,359</u>	<u>\$ -</u>

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

In addition to the above statutory reserves, the District has \$116,388 in cash restricted for school bus purchases

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Fund balance - reserved for school bus purchases	\$ 116,388
Fund balance - reserved for textbooks/instructional supplies	<u>179,359</u>
Total restricted assets	<u>\$ 295,747</u>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550		\$55,889		\$55,889
National School Lunch Program		10.555	\$241,419		\$241,419	
Total U.S. Department of Agriculture -- Nutrition Cluster			241,419	55,889	241,419	55,889
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 04 C1-S1 05	84.010	8,681 270,140		30,008 255,981	
Subtotal - Title I School Subsidy			278,821		285,989	
<i>Special Education Grants Cluster:</i>						
Title VI - B Special Education Grants to States	6B-SF-2004 6B-SF-2005	84.027	23,896 183,413		54,969 160,913	
Subtotal - Title VI-B Special Education Grants to States			207,309		215,882	
Safe and Drug Free Schools Grant	DR-S1-2005	84.186	9,402		9,402	
Innovative Education Program Strategies Chapter 2 Subsidy	CS-S1 2005	84.298	4,177		1,639	
Title II-D Technology State Grants	TJS1-2004 TJS1-2005	84.318			2,121 180	
Subtotal - Title II-D Technology State Grants			2,229		2,301	
Special Education - State Personnel Developmen		84.323	15,260		480	
Title II-A Improving Teacher Quality	TRS1-2004 TRS1-2005	84.367	4,778 40,514		4,778 35,048	
Subtotal - Title II-A Improving Teacher Quality			45,292		39,826	
Total -- U.S. Department of Education			562,490		555,519	
Totals			\$ 803,909	\$ 55,889	\$ 796,938	\$ 55,889

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule summarizes activity of the 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 District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary 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 District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The 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 ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

May 25, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Liberty Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Liberty Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

May 25, 2006

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 10.550 and 10.555 – Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	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
JUNE 29, 2006**