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STATE OF OHIO



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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general-purpose financial statements of the Liberty Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Liberty Local School District, Trumbull County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as 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 general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized and cursive, with a large loop at the end.

Jim Petro
Auditor of State

November 25, 2002

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LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents.	\$ 253,384	\$ 516,522	\$ 286,170	\$ 352,722
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Investments	20,570	-	-	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	5,505,375	1,611,829	800,393	156,529
Accounts.	5,797	-	-	-
Interfund loan receivable	40,000	-	-	-
Due from other governments	-	8,110	-	-
Materials and supplies inventory	5,548	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	138,612	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
OTHER DEBITS:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 5,969,286</u>	<u>\$ 2,136,461</u>	<u>\$ 1,086,563</u>	<u>\$ 509,251</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 146,329	\$ 31,261	\$ -	\$ 5,999
Accrued wages and benefits.	834,146	213,454	-	-
Compensated absences payable.	30,970	-	-	-
Due to other governments.	32,015	1,914	-	-
Pension obligation payable	-	176,228	-	-
Interfund loan payable	-	-	-	40,000
Deferred revenue	5,480,334	1,612,575	796,710	155,792
Due to students	-	-	-	-
General obligation bonds payable.	-	-	-	-
Claims payable	-	-	-	-
Total liabilities.	<u>6,523,794</u>	<u>2,035,432</u>	<u>796,710</u>	<u>201,791</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Retained earnings (accumulated deficit): unreserved.	-	-	-	-
Fund balances (deficit):				
Reserved for encumbrances	6,747	2,439	-	298,805
Reserved for materials and supplies inventory.	5,548	-	-	-
Reserved for debt service	-	-	200,811	-
Reserved for tax revenue unavailable for appropriation.	25,041	7,364	3,683	737
Reserved for principal endowment	-	-	-	-
Reserved for bus purchases	138,612	-	-	-
Unreserved-undesignated	(730,456)	91,226	85,359	7,918
Total equity and other credits	<u>(554,508)</u>	<u>101,029</u>	<u>289,853</u>	<u>307,460</u>
Total liabilities, equity and other credits.	<u>\$ 5,969,286</u>	<u>\$ 2,136,461</u>	<u>\$ 1,086,563</u>	<u>\$ 509,251</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Type		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 46,359	\$ 102,293	\$ 419,687	\$ -	\$ -	\$ 1,977,137
-	-	5,405	-	-	5,405
-	-	-	-	-	20,570
-	-	-	-	-	8,074,126
-	-	-	-	-	5,797
-	-	-	-	-	40,000
-	-	-	-	-	8,110
8,324	-	-	-	-	13,872
-	-	-	-	-	138,612
92,389	-	-	28,107,832	-	28,200,221
-	-	-	-	204,494	204,494
-	-	-	-	10,844,111	10,844,111
<u>\$ 147,072</u>	<u>\$ 102,293</u>	<u>\$ 425,092</u>	<u>\$ 28,107,832</u>	<u>\$ 11,048,605</u>	<u>\$ 49,532,455</u>
\$ -	\$ -	\$ 1,001	\$ -	\$ -	\$ 184,590
42,105	-	-	-	-	1,089,705
6,872	-	-	-	716,784	754,626
1,058	-	365,641	-	-	400,628
21,408	-	-	-	76,821	274,457
-	-	-	-	-	40,000
4,090	-	-	-	-	8,049,501
-	-	45,275	-	-	45,275
-	-	-	-	10,255,000	10,255,000
-	223,892	-	-	-	223,892
<u>75,533</u>	<u>223,892</u>	<u>411,917</u>	<u>-</u>	<u>11,048,605</u>	<u>21,317,674</u>
-	-	-	28,107,832	-	28,107,832
71,539	(121,599)	-	-	-	(50,060)
-	-	-	-	-	307,991
-	-	-	-	-	5,548
-	-	-	-	-	200,811
-	-	-	-	-	36,825
-	-	5,405	-	-	5,405
-	-	-	-	-	138,612
-	-	7,770	-	-	(538,183)
<u>71,539</u>	<u>(121,599)</u>	<u>13,175</u>	<u>28,107,832</u>	<u>-</u>	<u>28,214,781</u>
<u>\$ 147,072</u>	<u>\$ 102,293</u>	<u>\$ 425,092</u>	<u>\$ 28,107,832</u>	<u>\$ 11,048,605</u>	<u>\$ 49,532,455</u>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$ 4,936,234	\$ 1,435,641	\$ 708,069	\$ 139,072	\$ -	\$ 7,219,016
Earnings on investments	57,541	-	-	2,242	-	59,783
Extracurricular	-	204,039	-	-	-	204,039
Other local revenues	60,960	113,603	-	800	5,021	180,384
Other revenue	1,975	-	-	-	-	1,975
Intergovernmental - State	5,328,025	342,292	85,359	17,072	-	5,772,748
Intergovernmental - Federal	-	415,192	-	-	-	415,192
Total revenue.	<u>10,384,735</u>	<u>2,510,767</u>	<u>793,428</u>	<u>159,186</u>	<u>5,021</u>	<u>13,853,137</u>
Expenditures:						
Current:						
Instruction:						
Regular.	4,767,133	835,644	-	33,647	-	5,636,424
Special	1,645,586	391,024	-	-	-	2,036,610
Vocational	60,145	-	-	-	-	60,145
Other	-	3,657	-	-	-	3,657
Support services:						
Pupil	359,407	58,462	-	-	-	417,869
Instructional staff.	250,107	162,083	-	-	-	412,190
Board of Education.	14,953	-	-	-	-	14,953
Administration	969,685	265,254	-	-	-	1,234,939
Fiscal.	364,100	97,318	-	1,971	-	463,389
Business	42,493	-	-	-	-	42,493
Operations and maintenance	1,265,116	95,244	11,977	73,217	-	1,445,554
Pupil transportation	829,638	81,593	-	-	-	911,231
Central	29,983	75,270	-	33,251	-	138,504
Community services.	22,995	834	-	-	-	23,829
Extracurricular activities	239,396	224,548	-	-	-	463,944
Facilities acquisition and construction	-	-	-	232,672	-	232,672
Debt service:						
Principal retirement	-	-	330,000	-	-	330,000
Interest and fiscal charges.	-	-	460,483	-	-	460,483
Total expenditures	<u>10,860,737</u>	<u>2,290,931</u>	<u>802,460</u>	<u>374,758</u>	<u>-</u>	<u>14,328,886</u>
Excess (deficiency) of revenues over (under) expenditures	(476,002)	219,836	(9,032)	(215,572)	5,021	(475,749)
Other financing sources (uses):						
Operating transfers in	9,960	17,111	-	15,000	-	42,071
Operating transfers out.	(46,596)	-	-	-	-	(46,596)
Proceeds from sale of fixed assets	-	-	-	12,405	-	12,405
Total other financing sources (uses).	<u>(36,636)</u>	<u>17,111</u>	<u>-</u>	<u>27,405</u>	<u>-</u>	<u>7,880</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(512,638)	236,947	(9,032)	(188,167)	5,021	(467,869)
Fund balances, July 1.	(40,998)	(135,918)	298,885	495,627	2,749	620,345
Decrease in reserve for inventory.	(872)	-	-	-	-	(872)
Fund balances, June 30.	<u>\$ (554,508)</u>	<u>\$ 101,029</u>	<u>\$ 289,853</u>	<u>\$ 307,460</u>	<u>\$ 7,770</u>	<u>\$ 151,604</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes.	\$ 5,592,469	\$ 4,928,050	\$ (664,419)	\$ 1,565,774	\$ 1,433,234	\$ (132,540)
Earnings on investments.	51,945	61,623	9,678	-	-	-
Extracurricular.	-	-	-	175,857	204,040	28,183
Other local revenues.	55,616	65,978	10,362	97,911	113,603	15,692
Other revenue.	-	-	-	-	-	-
Intergovernmental - State.	4,728,672	5,328,024	599,352	140,518	342,292	201,774
Intergovernmental - Federal.	-	-	-	362,454	420,542	58,088
Total revenues.	<u>10,428,702</u>	<u>10,383,675</u>	<u>(45,027)</u>	<u>2,342,514</u>	<u>2,513,711</u>	<u>171,197</u>
Expenditures:						
Current:						
Instruction:						
Regular.	4,740,582	4,783,892	(43,310)	813,119	800,711	12,408
Special.	1,601,051	1,616,046	(14,995)	423,998	340,455	83,543
Vocational.	70,408	66,073	4,335	-	-	-
Other.	-	-	-	3,775	3,657	118
Support services:						
Pupil.	385,506	354,134	31,372	161,741	138,233	23,508
Instructional staff.	223,239	233,219	(9,980)	199,927	168,522	31,405
Board of Education.	15,827	14,041	1,786	-	-	-
Administration.	1,036,076	980,793	55,283	311,539	261,364	50,175
Fiscal.	334,127	313,932	20,195	99,353	97,279	2,074
Business.	54,753	44,744	10,009	-	-	-
Operations and maintenance.	1,422,741	1,292,398	130,343	98,230	95,040	3,190
Pupil transportation.	1,133,961	970,102	163,859	3,990	3,332	658
Central.	37,868	30,013	7,855	76,064	75,491	573
Community services.	23,301	23,317	(16)	15,324	574	14,750
Extracurricular activities.	267,120	240,441	26,679	258,014	219,774	38,240
Facilities acquisition and construction.	-	-	-	-	-	-
Debt service:						
Principal retirement.	-	-	-	-	-	-
Interest and fiscal charges.	-	-	-	-	-	-
Total expenditures.	<u>11,346,560</u>	<u>10,963,145</u>	<u>383,415</u>	<u>2,465,074</u>	<u>2,204,432</u>	<u>260,642</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(917,858)</u>	<u>(579,470)</u>	<u>338,388</u>	<u>(122,560)</u>	<u>309,279</u>	<u>431,839</u>
Other financing sources (uses):						
Operating transfers in.	8,396	9,960	1,564	14,748	17,111	2,363
Operating transfers out.	(12,000)	(46,597)	(34,597)	-	-	-
Advances in.	-	-	-	-	-	-
Advances out.	-	(40,000)	(40,000)	-	-	-
Proceeds from sale of fixed assets.	-	-	-	-	-	-
Refund of prior year expenditure.	139,818	165,869	26,051	-	-	-
Total other financing sources (uses).	<u>136,214</u>	<u>89,232</u>	<u>(46,982)</u>	<u>14,748</u>	<u>17,111</u>	<u>2,363</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses).	<u>(781,644)</u>	<u>(490,238)</u>	<u>291,406</u>	<u>(107,812)</u>	<u>326,390</u>	<u>434,202</u>
Fund balances, July 1.	595,585	595,585	-	147,864	147,864	-
Prior year encumbrances appropriated.	<u>217,034</u>	<u>217,034</u>	<u>-</u>	<u>25,638</u>	<u>25,638</u>	<u>-</u>
Fund balances, June 30.	<u>\$ 30,975</u>	<u>\$ 322,381</u>	<u>\$ 291,406</u>	<u>\$ 65,690</u>	<u>\$ 499,892</u>	<u>\$ 434,202</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 706,864	\$ 706,865	\$ 1	\$ 138,468	\$ 138,832	\$ 364	\$ 8,003,575	\$ 7,206,981	\$ (796,594)
-	-	-	1,860	2,242	382	53,805	63,865	10,060
-	-	-	-	-	-	175,857	204,040	28,183
-	-	-	664	800	136	154,191	180,381	26,190
-	-	-	-	-	-	-	-	-
-	85,359	85,359	-	17,072	17,072	4,869,190	5,772,747	903,557
-	-	-	-	-	-	362,454	420,542	58,088
<u>706,864</u>	<u>792,224</u>	<u>85,360</u>	<u>140,992</u>	<u>158,946</u>	<u>17,954</u>	<u>13,619,072</u>	<u>13,848,556</u>	<u>229,484</u>
-	-	-	36,108	33,646	2,462	5,589,809	5,618,249	(28,440)
-	-	-	-	-	-	2,025,049	1,956,501	68,548
-	-	-	-	-	-	70,408	66,073	4,335
-	-	-	-	-	-	3,775	3,657	118
-	-	-	-	-	-	547,247	492,367	54,880
-	-	-	-	-	-	423,166	401,741	21,425
-	-	-	-	-	-	15,827	14,041	1,786
-	-	-	-	-	-	1,347,615	1,242,157	105,458
-	-	-	-	-	-	433,480	411,211	22,269
-	-	-	-	-	-	54,753	44,744	10,009
11,540	11,977	(437)	319,046	360,955	(41,909)	1,851,557	1,760,370	91,187
-	-	-	-	-	-	1,137,951	973,434	164,517
-	-	-	43,751	33,251	10,500	157,683	138,755	18,928
-	-	-	500	12,005	(11,505)	39,125	35,896	3,229
-	-	-	-	-	-	525,134	460,215	64,919
-	-	-	260,170	239,702	20,468	260,170	239,702	20,468
330,000	330,000	-	-	-	-	330,000	330,000	-
460,483	460,483	-	-	-	-	460,483	460,483	-
<u>802,023</u>	<u>802,460</u>	<u>(437)</u>	<u>659,575</u>	<u>679,559</u>	<u>(19,984)</u>	<u>15,273,232</u>	<u>14,649,596</u>	<u>623,636</u>
<u>(95,159)</u>	<u>(10,236)</u>	<u>84,923</u>	<u>(518,583)</u>	<u>(520,613)</u>	<u>(2,030)</u>	<u>(1,654,160)</u>	<u>(801,040)</u>	<u>853,120</u>
-	-	-	12,444	15,000	2,556	35,588	42,071	6,483
-	-	-	-	-	-	(12,000)	(46,597)	(34,597)
-	-	-	33,184	40,000	6,816	33,184	40,000	6,816
-	-	-	-	-	-	-	(40,000)	(40,000)
-	-	-	10,291	12,405	2,114	10,291	12,405	2,114
-	-	-	-	-	-	139,818	165,869	26,051
-	-	-	<u>55,919</u>	<u>67,405</u>	<u>11,486</u>	<u>206,881</u>	<u>173,748</u>	<u>(33,133)</u>
<u>(95,159)</u>	<u>(10,236)</u>	<u>84,923</u>	<u>(462,664)</u>	<u>(453,208)</u>	<u>9,456</u>	<u>(1,447,279)</u>	<u>(627,292)</u>	<u>819,987</u>
296,406	296,406	-	272,129	272,129	-	1,311,984	1,311,984	-
-	-	-	231,626	231,626	-	474,298	474,298	-
<u>\$ 201,247</u>	<u>\$ 286,170</u>	<u>\$ 84,923</u>	<u>\$ 41,091</u>	<u>\$ 50,547</u>	<u>\$ 9,456</u>	<u>\$ 339,003</u>	<u>\$ 1,158,990</u>	<u>\$ 819,987</u>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Sales/charges for services	\$ 273,790	\$ 1,430,889	\$ -	\$ 1,704,679
Total operating revenues	<u>273,790</u>	<u>1,430,889</u>	<u>-</u>	<u>1,704,679</u>
Operating expenses:				
Personal services	220,088	-	-	220,088
Contract services	13,334	119,219	-	132,553
Materials and supplies	191,748	-	679	192,427
Depreciation	1,134	-	-	1,134
Claims expense	-	1,416,149	-	1,416,149
Other	<u>713</u>	<u>-</u>	<u>-</u>	<u>713</u>
Total operating expenses	<u>427,017</u>	<u>1,535,368</u>	<u>679</u>	<u>1,963,064</u>
Operating loss	<u>(153,227)</u>	<u>(104,479)</u>	<u>(679)</u>	<u>(258,385)</u>
Nonoperating revenues:				
Operating grants	139,215	-	-	139,215
Federal commodities	34,485	-	-	34,485
Interest revenue	<u>-</u>	<u>1,153</u>	<u>-</u>	<u>1,153</u>
Total nonoperating revenues	<u>173,700</u>	<u>1,153</u>	<u>-</u>	<u>174,853</u>
Net income (loss) before operating transfers . .	20,473	(103,326)	(679)	(83,532)
Operating transfers in	14,485	-	-	14,485
Operating transfers out	<u>(9,960)</u>	<u>-</u>	<u>-</u>	<u>(9,960)</u>
Net income (loss)	24,998	(103,326)	(679)	(79,007)
Retained earnings (accumulated deficit)/fund balance, July 1 . . .	<u>46,541</u>	<u>(18,273)</u>	<u>6,084</u>	<u>34,352</u>
Retained earnings (accumulated deficit)/fund balance, June 30 . .	<u>\$ 71,539</u>	<u>\$ (121,599)</u>	<u>\$ 5,405</u>	<u>\$ (44,655)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from sales/service charges	\$ 273,790	\$ 1,430,889	\$ -	\$ 1,704,679
Cash payments for personal services	(190,766)	-	-	(190,766)
Cash payments for contract services	(13,334)	(119,219)	-	(132,553)
Cash payments for materials and supplies.	(166,508)	-	(679)	(167,187)
Cash payments for claims expense	-	(1,349,232)	-	(1,349,232)
Cash payments for other expenses	(713)	-	-	(713)
Net cash used in operating activities.	<u>(97,531)</u>	<u>(37,562)</u>	<u>(679)</u>	<u>(135,772)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	139,215	-	-	139,215
Cash received from transfers in.	14,485	-	-	14,485
Cash payment for transfers out	<u>(9,960)</u>	<u>-</u>	<u>-</u>	<u>(9,960)</u>
Net cash provided by noncapital financing activities	<u>143,740</u>	<u>-</u>	<u>-</u>	<u>143,740</u>
Cash flows from investing activities:				
Interest received	<u>-</u>	<u>1,153</u>	<u>-</u>	<u>1,153</u>
Net cash provided by investing activities	<u>-</u>	<u>1,153</u>	<u>-</u>	<u>1,153</u>
Net increase (decrease) in cash and cash equivalents.	46,209	(36,409)	(679)	9,121
Cash and cash equivalents at beginning of year	<u>150</u>	<u>138,702</u>	<u>6,084</u>	<u>144,936</u>
Cash and cash equivalents at end of year.	<u>\$ 46,359</u>	<u>\$ 102,293</u>	<u>\$ 5,405</u>	<u>\$ 154,057</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss.	\$ (153,227)	\$ (104,479)	\$ (679)	\$ (258,385)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	1,134	-	-	1,134
Federal donated commodities	34,485	-	-	34,485
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	386	-	-	386
Decrease in accounts payable	(9,960)	-	-	(9,960)
Increase in accrued wages and benefits	28,202	-	-	28,202
Increase in compensated absences payable	1,748	-	-	1,748
Increase in due to other governments	1,058	66,917	-	67,975
Decrease in pension obligation payable	(1,686)	-	-	(1,686)
Increase in deferred revenue.	<u>329</u>	<u>-</u>	<u>-</u>	<u>329</u>
Net cash used in operating activities	<u>\$ (97,531)</u>	<u>\$ (37,562)</u>	<u>\$ (679)</u>	<u>\$ (135,772)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL 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 310th largest by enrollment among the 705 public and community school districts in the State. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 69 non-certified and 125 certificated personnel to provide services to approximately 1,836 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) 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 prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

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 Educational Service Center (fiscal agent) at 347 North Park Avenue, Warren, Ohio 44481.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

The District also participates in a Group Rating Plan (GRP) for worker's compensation insurance, discussed in Note 10.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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 where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - The internal service funds are 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 governmental units, on a cost-reimbursement basis.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust, nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have measurement focus. Agency funds are reported on a cash basis, with note disclosure (if applicable) regarding items which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds and nonexpendable trust fund.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the proprietary funds and nonexpendable trust fund.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as advances on future tax settlements are recognized as revenue at fiscal year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred, with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary and nonexpendable trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

D. 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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2002 is as follows:

1. 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statements present comparisons at the fund and function level of expenditures as elected by the District Treasurer. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board; however, none of the amendments were significant.
9. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at fiscal year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) on the combined balance sheet.

During fiscal 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and common stock.

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 are reported at cost.

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, 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$57,541, which included \$37,784 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at fiscal year-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed asset account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture/equipment	5 - 20

H. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten (10) years of service, regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, debt service, tax revenue advance unavailable for appropriation, and bus purchases. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, fund equity is reserved for the amount of the principal endowment. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is restricted by state statute. A fund balance reserve has also been established. See Note 16 for the statutory reserve.

M. Estimates

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

N. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2002 included the following individual fund deficits:

	<u>Deficit Balance</u>
General Fund	\$554,508
<u>Special Revenue Funds</u>	
Emergency Levy	49,134
Education Management Information Systems	38
Miscellaneous Federal Grants	4,213
<u>Internal Service Funds</u>	
Employee Benefits Self-Insurance	121,599

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end.

These deficits, caused by the application of GAAP, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the District into three categories:

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the 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 may be invested or deposited in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**LIBERTY LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 investments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At year end, the District had \$250 in undeposited cash on hand which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Deposits: At fiscal year-end the carrying amount of the District’s deposits was \$(115,328) and the bank balance was \$13,915. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the District’s bank accounts. The entire bank balance was covered by federal deposit insurance.

Investments: Investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District’s name. STAR Ohio is an unclassified investment because it is not evidenced by securities that exist in physical or book entry form.

	Category of Risk 3	Fair Value
Repurchase agreement	\$267,524	\$ 267,524
Common Stock *	20,570	20,570
Not subject to categorization:		
Investment in STAR Ohio	-	1,968,708
Total investments	<u>\$288,094</u>	<u>\$2,256,802</u>

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

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
Per GASB Statement No. 9	\$ 2,121,154	\$ 20,570
Investments of the cash management pool:		
Repurchase agreement	(267,524)	267,524
Investment in STAR Ohio	(1,968,708)	1,968,708
Cash on hand	<u>(250)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (115,328)</u>	<u>\$2,256,802</u>

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers during fiscal year 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 9,960	\$46,596
<u>Special Revenue Fund</u>		
District Managed Student Activity	17,111	-
<u>Enterprise Fund</u>		
Food Services	14,485	9,960
<u>Capital Projects Fund</u>		
Permanent Improvements	<u>15,000</u>	<u>-</u>
Total Transfers	<u>\$56,556</u>	<u>\$56,556</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund balances at June 30, 2002 consist of the following individual interfund loans receivable and payable.

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General	\$40,000	\$ -
<u>Capital Projects Fund</u>		
Permanent Improvements	<u>-</u>	<u>40,000</u>
Total	<u>\$40,000</u>	<u>\$40,000</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed value upon which the 2001 taxes were collected was \$220,873,988. Agricultural/residential and public utility/minerals real estate represented 67.8% or \$149,904,690 of this total; Commercial & industrial real estate represented 21.5% or \$47,363,450 of this total; public utility tangible represented 4.1% or \$8,959,870 of this total and general tangible property represented 6.6% or \$14,645,978 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$46.35 per \$1,000.00 of assessed valuation for operations.

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Trumbull County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end. Available tax advances at June 30, 2002 totaled \$25,041 in the general fund; \$3,683 in the debt service fund; \$737 in the permanent improvements fund; and \$7,364 in the emergency levy special revenue fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, interfund loans, and intergovernmental grants (to the extent such grants relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current & delinquent	\$5,505,375
Accounts	5,797
 <u>Special Revenue Funds</u>	
Taxes - current & delinquent	1,611,829
Due from other governments	8,110
 <u>Debt Service Fund</u>	
Taxes - current & delinquent	800,393
 <u>Capital Projects Funds</u>	
Taxes - current & delinquent	156,529

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Land/improvements	\$ 1,044,379	\$ -	\$ -	\$ 1,044,379
Buildings/improvements	20,290,663	-	-	20,290,663
Furniture/equipment	5,940,726	108,928	(39,928)	6,009,726
Vehicles	712,939	50,125	-	763,064
Total	<u>\$27,988,707</u>	<u>\$159,053</u>	<u>\$(39,928)</u>	<u>\$28,107,832</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ 213,726
Less: accumulated depreciation	<u>(121,337)</u>
Net fixed assets	<u>\$ 92,389</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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.

A. The following is a description of the District's bonds outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance 07/01/01</u>	<u>Retired in Fiscal 2002</u>	<u>Balance 06/30/02</u>
Building							
Construction	5.23%	11/20/97	12/01/20	<u>\$11,200,000</u>	<u>\$10,585,000</u>	<u>\$(330,000)</u>	<u>\$10,255,000</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

Year Ending June 30	Principal on General Obligation Bonds	Interest on General Obligation Bonds	Total
2003	\$ 360,000	\$ 445,730	\$ 805,730
2004	395,000	429,300	824,300
2005	425,000	411,047	836,047
2006	455,000	391,020	846,020
2007	490,000	369,040	859,040
2008 - 2012	1,564,889	2,955,546	4,520,435
2013 - 2017	3,005,111	1,768,970	4,774,081
2018 - 2021	<u>3,560,000</u>	<u>380,886</u>	<u>3,940,886</u>
Total	<u>\$10,255,000</u>	<u>\$7,151,539</u>	<u>\$17,406,539</u>

C. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these amounts. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance July 1, 2001	Increase	Decrease	Balance June 30, 2002
Compensated absences	\$ 683,210	\$ 33,574	\$ -	\$ 716,784
Pension obligation payable	72,349	76,821	(72,349)	76,821
General obligation bonds payable	<u>10,585,000</u>	-	<u>(330,000)</u>	<u>10,255,000</u>
Total	<u>\$11,340,559</u>	<u>\$110,395</u>	<u>\$(402,349)</u>	<u>\$11,048,605</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$9,913,512 (including available funds of \$289,853) and an unvoted debt margin of \$220,874.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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

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

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

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

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reductions in amounts of insurance coverage from fiscal 2001.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - RISK MANAGEMENT - (Continued)

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 in 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 \$223,892 reported in the fund at June 30, 2002 is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims cost, including estimated of cost relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal 2002 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$156,975	\$1,416,149	\$1,349,232	\$223,892
2001	150,712	1,175,437	1,169,174	156,975

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Worker's Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - SEGMENT INFORMATION - ENTERPRISE FUNDS

Although the District maintains two enterprise funds to account for the operations of food service and uniform school supplies, there was no activity in the uniform school supplies fund in fiscal 2002. Segment information is therefore not presented. Of the total retained earnings presented on the combined balance sheet for enterprise funds, \$150 was for the uniform school supplies fund. There were no encumbrances outstanding in the enterprise funds at June 30, 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$221,292, \$271,304, and \$206,006, respectively; 48.7% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$113,340, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$792,051, \$853,547, and \$609,080, respectively; 81.6% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$145,248, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent 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 this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$254,588 during fiscal 2002.

**LIBERTY LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54% 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 2002, the minimum pay has been established at \$12,400. 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 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$207,337 during the 2002 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis);
- (d) Intrafund transfers have been presented as other financing sources (uses) on a budget basis. Intrafund transfers have been eliminated for GAAP basis reporting purposes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing
Sources Over/(Under) Expenditures and Other
Financing Uses**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$(490,238)	\$ 326,390	\$(10,236)	\$(453,208)
Net adjustment for revenue accruals	1,060	(2,944)	1,204	240
Net adjustment for expenditure accruals	30,044	(103,129)	-	2,626
Net adjustment for other financing sources/(uses)	(125,868)	-	-	(40,000)
Encumbrances (budget basis)	<u>72,364</u>	<u>16,630</u>	<u>-</u>	<u>302,175</u>
GAAP basis	<u>\$(512,638)</u>	<u>\$ 236,947</u>	<u>\$ (9,032)</u>	<u>\$(188,167)</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

As of the balance sheet date, the District was not involved in any litigation as either defendant or plaintiff.

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a timeline for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 - CONTINGENCIES - (Continued)

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of July 1, 2001	\$ 29,765	\$ 0
Current year set-aside requirement	249,691	249,691
Qualifying disbursements	<u>(279,459)</u>	<u>(341,235)</u>
Total, June 30, 2002	<u>\$ (3)</u>	<u>\$ (91,544)</u>
Cash balance carried forward to FY 2003	<u>\$ (3)</u>	<u>\$ 0</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 16 - STATUTORY RESERVES

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for bus purchases	<u>\$138,612</u>
Total restricted assets	<u>\$138,612</u>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	-	10.550		\$34,814		\$34,485
National School Lunch Program	LL-P1-2002	10.555	132,711		132,711	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>132,711</u>	<u>34,814</u>	<u>132,711</u>	<u>34,485</u>
<u>INSTITUTE OF MUSEUM - LIBRARY SERVICES</u>						
<i>Passed Through State Library of Ohio</i>						
LSTA Mini Grant	-	45.310			8,164	
<u>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through The Ohio Department of Mental Retardation and Disabilities</i>						
Medicaid Cluster:						
Medicaid Assistance Program	FY2002	93.778	10,515		25,746	
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)						
	6B-SF-2002	84.027	122,354		94,570	
Grants to Local Educational Agencies (ESEA Title I)						
	C1-S1-2001	84.010	19,069		44,907	
	C1-S1-2002		<u>195,539</u>		<u>156,160</u>	
Total Grants to Local Education Agencies			214,608		201,067	
Title VI Innovative Education Program						
	C2-S1-2000	84.151			7,682	
	C2-S1-2001				2,784	
	C2-S1-2002		<u>2,795</u>		<u>1,324</u>	
Total Innovative Education Program			<u>2,795</u>		<u>11,790</u>	
Drug Free Schools	DR-S1-2001	84.186	7,314		7,314	
Eisenhower Professional Development	MS-S1-2001	84.281	11,069		10,467	
Class Size Reduction Program						
	CR-S1-2001	84.340	3,665		3,665	
	CR-S1-2002		<u>58,737</u>		<u>54,676</u>	
Total Class Size Reduction Program			62,402		58,341	
Total Department of Education			<u>420,542</u>	<u>0</u>	<u>383,549</u>	<u>0</u>
Totals			<u><u>\$563,768</u></u>	<u><u>\$34,814</u></u>	<u><u>\$550,170</u></u>	<u><u>\$34,485</u></u>

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEARS ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Liberty Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our considerations of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the District in a separate letter dated November 25, 2002.

Liberty Local School District
Trumbull County
Report of Independent Accountants on Compliance and on
Internal Control Required by Government *Auditing Standards*
Page 2

This report is intended for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 25, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

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 are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Liberty Local School District
Trumbull County
Report of Independent Accountants on Compliance with Requirements
Applicable to Major Federal Programs and Internal
Control Over Compliance In Accordance With OMB Circular A-133
Page 2

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

This report is intended for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 25, 2002

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2002**

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 84.010, Title 1
<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.



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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
JANUARY 30, 2003**