

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

TRACEY OBERMIYER, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Liberty Local School District, Trumbull County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Liberty Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 23, 2009

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Liberty Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Liberty Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable thereof, and the budgetary comparisons for the general fund and the emergency levy fund for the fiscal 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 February 2, 2009, on our consideration of Liberty Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Liberty Local School District
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Liberty Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of 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 basic financial statements of Liberty Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
February 2, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Liberty Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- In total, net assets of governmental activities decreased \$194,279 which represents 17.59% decrease from 2006.
- General revenues accounted for \$15,676,601 in revenue or 85.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,702,745 or 14.71% of total revenues of \$18,379,346.
- The District had \$18,573,625 in expenses related to governmental activities; only \$2,702,745 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,676,601 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and emergency levy fund. The general fund had \$15,800,666 in revenues and other financing sources and \$14,902,787 in expenditures. During fiscal year 2007, the general fund's fund deficit decreased \$896,513 from a deficit of \$2,640,459 to a deficit of \$1,743,946.
- The District's emergency levy fund had \$3,347,886 in revenues and \$3,696,362 in expenditures and other financing uses. During fiscal year 2007, the emergency levy fund's fund balance decreased \$348,476 from \$568,559 to \$220,083.

Using the Basic Financial Statements (BFS)

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and emergency levy fund are the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Fund

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2007 and June 30, 2006.

	Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Assets</u>		
Current and other assets	\$ 13,119,665	\$ 13,602,381
Capital assets, net	<u>11,260,103</u>	<u>11,717,031</u>
Total assets	<u>24,379,768</u>	<u>25,319,412</u>
<u>Liabilities</u>		
Current liabilities	12,850,862	13,179,757
Long-term liabilities	<u>10,618,885</u>	<u>11,035,355</u>
Total liabilities	<u>23,469,747</u>	<u>24,215,112</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,275,186	3,097,113
Restricted	656,710	1,277,677
Unrestricted (deficit)	<u>(3,021,875)</u>	<u>(3,270,490)</u>
Total net assets	<u>\$ 910,021</u>	<u>\$ 1,104,300</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$910,021.

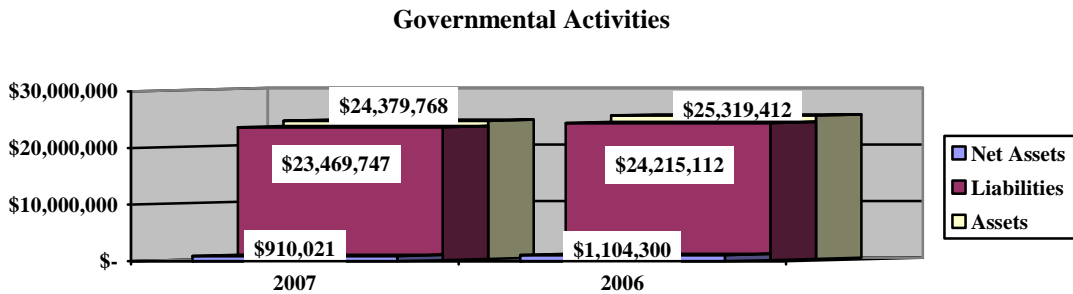
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

At fiscal year-end, capital assets represented 46.19% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,275,186. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$656,710, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$3,021,875.

The graph below shows the District's assets, liabilities and net assets at June 30, 2007 and June 30, 2006.



The table below shows the change in net assets for fiscal years 2007 and 2006.

	Change in Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,046,051	\$ 1,360,078
Operating grants and contributions	1,632,272	1,423,826
Capital grants and contributions	24,422	5,500
General revenues:		
Property taxes	9,258,875	8,409,890
Grants and entitlements	6,110,319	6,350,412
Investment earnings	148,408	114,157
Other	158,999	43,887
Total revenues	18,379,346	17,707,750

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program revenues:		
Instruction:		
Regular	\$ 7,710,530	\$ 7,564,590
Special	1,703,394	2,677,741
Vocational	76,006	63,548
Adult	5,005	2,901
Other	43,797	126
Support services:		
Pupil	555,287	513,637
Instructional staff	509,891	487,912
Board of education	40,381	9,002
Administration	2,220,905	1,774,727
Fiscal	590,260	473,544
Business	57,442	107,597
Operations and maintenance	2,167,928	1,819,148
Pupil transportation	1,009,996	901,630
Central	46,137	40,756
Operations of non-instructional services:		
Other non-instructional services	41,537	34,584
Food service operations	805,564	677,871
Extracurricular activities	480,122	448,472
Interest and fiscal charges	509,443	478,224
Total expenses	<u>18,573,625</u>	<u>18,076,010</u>
Changes in net assets	(194,279)	(368,260)
Net assets at beginning of year	<u>1,104,300</u>	<u>1,472,560</u>
Net assets at end of year	<u>\$ 910,021</u>	<u>\$ 1,104,300</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$194,279. Total governmental expenses of \$18,573,625 were offset by program revenues of \$2,702,745 and general revenues of \$15,676,601. Program revenues supported 14.55% of the total governmental expenses.

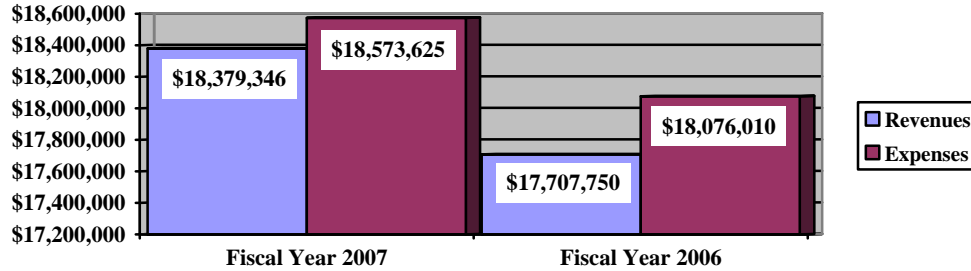
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 83.62% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2007 and 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 7,710,530	\$ 7,043,071	\$ 7,564,590	\$ 6,574,760
Special	1,703,394	736,146	2,677,741	2,139,372
Vocational	76,006	62,413	63,548	63,548
Adult	5,005	3,220	2,901	(299)
Other	43,797	43,797	126	126
Support services:				
Pupil	555,287	523,812	513,637	478,161
Instructional staff	509,891	464,752	487,912	206,109
Board of education	40,381	40,381	9,002	9,002
Administration	2,220,905	2,127,108	1,774,727	1,683,841
Fiscal	590,260	589,954	473,544	473,544
Business	57,442	57,442	107,597	70,271
Operations and maintenance	2,167,928	2,167,901	1,819,148	1,819,148
Pupil transportation	1,009,996	997,436	901,630	901,630
Central	46,137	31,613	40,756	25,714
Operations of non-instructional services:				
Other non-instructional services	41,537	41,377	34,584	34,584
Food service operations	805,564	43,060	677,871	(29,327)
Extracurricular activities	480,122	387,954	448,472	358,198
Interest and fiscal charges	509,443	509,443	478,224	478,224
Total expenses	<u>\$ 18,573,625</u>	<u>\$ 15,870,880</u>	<u>\$ 18,076,010</u>	<u>\$ 15,286,606</u>

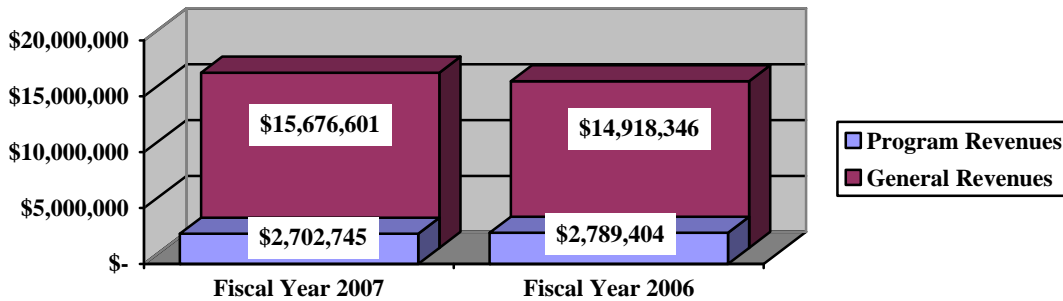
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The dependence upon tax and other general revenues for governmental activities is apparent, 82.70% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.45%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$(881,885), which is greater than last year's deficit of \$(806,095). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and June 30, 2006.

	Fund Balance (Deficit) <u>June 30, 2007</u>	Fund Balance (Deficit) <u>June 30, 2006</u>	<u>Increase/(Decrease)</u>
General	\$ (1,743,946)	\$ (2,640,459)	\$ 896,513
Emergency Levy	220,083	568,559	(348,476)
Other Governmental	<u>642,008</u>	<u>1,265,805</u>	<u>(623,797)</u>
Total	<u>\$ (881,855)</u>	<u>\$ (806,095)</u>	<u>\$ (75,760)</u>

General Fund

The District's general fund deficit decreased \$896,513 from a deficit of \$2,640,459 to a deficit of \$1,743,946.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table that follows assists in illustrating the financial activities and fund balance of the general fund for fiscal years 2007 and 2006.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,416,706	\$ 5,065,550	6.93 %
Tuition	529,489	750,692	(29.47) %
Earnings on investments	148,408	110,598	34.19 %
Intergovernmental	6,103,245	6,085,844	0.29 %
Other revenues	<u>174,745</u>	<u>59,010</u>	196.13 %
Total	<u>\$ 12,372,593</u>	<u>\$ 12,071,694</u>	2.49 %
<u>Expenditures</u>			
Instruction	\$ 8,176,984	\$ 7,748,127	5.53 %
Support services	6,293,552	4,666,546	34.87 %
Operation of non-instructional services	38,973	33,676	15.73 %
Extracurricular activities	333,739	315,921	5.64 %
Debt service	<u>59,539</u>	<u>-</u>	100.00 %
Total	<u>\$ 14,902,787</u>	<u>\$ 12,764,270</u>	16.75 %

Overall revenues increased \$300,899 or 2.49%. This increase in revenue is primarily due to an increase in taxes. Tuition revenue decreased \$221,203 or 29.47%. This decrease is a result of an overall decrease in open enrollment.

Overall expenditures increased \$2,138,517 or 16.75%. This increase is primarily attributable to an increase in support services expenditures. Support services expenditures increased \$1,627,006 or 34.87%. This increase is a result of increases in contract wages and the hiring of new employees.

Emergency Levy Fund

The District's emergency levy fund balance decreased \$348,476 from \$568,559 to \$220,083. The decrease in fund balance can be primarily attributed to a transfer made during the fiscal year to the general fund in the amount of \$3,587,624.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the District amended its general fund budgeted revenues several times. For the general fund, original revenues of \$11,840,903 were increased to \$11,842,138 for final budgeted revenues. Actual revenues and other financing sources for fiscal year 2007 were \$15,870,636. This represents a \$4,028,498 increase over final budgeted revenues. This increase is primarily due to transfers in from the emergency levy fund in the amount of \$3,428,073.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,173,585 were increased to \$14,660,686 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$15,350,554, which was \$689,868 more than the final budget appropriations. The increases in appropriations were primarily caused by the increases in regular instruction and administration expenses.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$11,260,103 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2007 balances compared to the balances at June 30, 2006.

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

	Governmental Activities	
	2007	2006
Land	\$ 349,160	\$ 349,160
Land improvements	602,079	692,033
Building and improvements	10,009,726	10,459,399
Furniture and equipment	204,593	184,631
Vehicles	94,545	31,808
Total	\$ 11,260,103	\$ 11,717,031

Total additions to capital assets for fiscal year 2007 were \$163,570 and depreciation expense was \$620,498. The overall decrease in capital assets is \$456,928, which was due to depreciation expense exceeding capital outlays during fiscal year 2007.

Debt Administration

At June 30, 2007, the District had \$9,136,387 in general obligation bonds outstanding. Of this total, \$600,000 is due within one year and \$8,536,387 is due within greater than one year. The following table summarizes the general obligation bonds at June 30, 2007 and June 30, 2006.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 9,136,387	\$ 9,560,970
Total	\$ 9,136,387	\$ 9,560,970

At June 30, 2007, the District's overall legal debt margin was \$12,744,099 with an unvoted debt margin of \$227,190. The District maintains an A-1 bond rating.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

The District continues to face many challenges in the future. The District relies heavily on local property taxes. Declining enrollment and changes in ADM calculations for foundation formulas have produced a decrease in state funding. The scheduled decreases in personal and tangible taxes contribute to the critical need for additional new local funding.

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

The District continues to have an enrollment decline with another 120 students from 2006 to 2007. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy).

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,756,175
Investments	20,616
Receivables:	
Taxes	10,068,354
Accounts	17,722
Intergovernmental	115,062
Materials and supplies inventory	20,609
Unamortized bond issuance costs.	121,127
Capital assets:	
Land	349,160
Depreciable capital assets, net	10,910,943
Total capital assets, net	11,260,103
 Total assets	 24,379,768
 Liabilities:	
Accounts payable	111,184
Accrued wages and benefits.	1,521,915
Pension obligation payable.	331,874
Intergovernmental payable	51,864
Unearned revenue	9,045,265
Accrued interest payable	24,372
Claims payable	343,588
Notes payable.	1,420,800
Long-term liabilities:	
Due within one year	779,867
Due in more than one year.	9,839,018
 Total liabilities	 23,469,747
 Net Assets:	
Invested in capital assets, net of related debt	3,275,186
Restricted for:	
Permanent fund - nonexpendable.	4,269
Debt service.	341,681
Capital projects	26,030
Locally funded programs	386
State funded programs	39,062
Federally funded programs	18,668
Student activities	15,595
Other purposes	211,019
Unrestricted (deficit).	(3,021,875)
 Total net assets.	 \$ 910,021

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 7,710,530	\$ 536,728	\$ 117,283	\$ 13,448	\$ (7,043,071)
Special	1,703,394	10,708	956,540	-	(736,146)
Vocational	76,006	-	13,593	-	(62,413)
Adult	5,005	-	1,785	-	(3,220)
Other	43,797	-	-	-	(43,797)
Support services:					
Pupil	555,287	-	31,475	-	(523,812)
Instructional staff	509,891	-	45,139	-	(464,752)
Board of education	40,381	-	-	-	(40,381)
Administration	2,220,905	88,549	5,248	-	(2,127,108)
Fiscal	590,260	-	306	-	(589,954)
Business	57,442	-	-	-	(57,442)
Operations and maintenance	2,167,928	-	27	-	(2,167,901)
Pupil transportation	1,009,996	-	1,586	10,974	(997,436)
Central	46,137	-	14,524	-	(31,613)
Operation of non-instructional services:					
Other non-instructional services	41,537	-	160	-	(41,377)
Food service operations	805,564	317,898	444,606	-	(43,060)
Extracurricular activities	480,122	92,168	-	-	(387,954)
Interest and fiscal charges	509,443	-	-	-	(509,443)
Totals	\$ 18,573,625	\$ 1,046,051	\$ 1,632,272	\$ 24,422	(15,870,880)

General Revenues:

Property taxes levied for:	
General purposes	5,447,401
Special revenue	3,085,148
Debt service	584,690
Capital projects	141,636
Grants and entitlements not restricted to specific programs	6,110,319
Investment earnings	148,408
Miscellaneous	158,999
Total general revenues	15,676,601
Change in net assets	(194,279)
Net assets at beginning of year	1,104,300
Net assets at end of year	\$ 910,021

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,122,232	\$ 179,254	\$ 890,058	\$ 2,191,544
Investments	20,616	-	-	20,616
Receivables:				
Taxes	5,523,253	3,496,237	1,048,864	10,068,354
Accounts	10,756	-	6,966	17,722
Intergovernmental	1,670	-	113,392	115,062
Due from other funds	752	-	-	752
Interfund loans	-	3,433	-	3,433
Advances to other funds	21,634	20,602	-	42,236
Materials and supplies inventory	13,762	-	6,847	20,609
Restricted assets:				
Equity in pooled cash and cash equivalents	211,019	-	-	211,019
Total assets	<u>\$ 6,925,694</u>	<u>\$ 3,699,526</u>	<u>\$ 2,066,127</u>	<u>\$ 12,691,347</u>
Liabilities:				
Accounts payable	\$ 76,700	\$ -	\$ 34,484	\$ 111,184
Accrued wages and benefits	1,363,339	-	158,576	1,521,915
Compensated absences payable	26,760	-	-	26,760
Pension obligation payable	232,526	-	99,348	331,874
Intergovernmental payable	46,835	-	5,029	51,864
Due to other funds	-	-	752	752
Interfund loans payable	-	-	3,433	3,433
Advances from other funds	-	-	42,236	42,236
Deferred revenue	521,356	356,727	135,064	1,013,147
Accrued interest payable	3,972	-	-	3,972
Notes payable	1,420,800	-	-	1,420,800
Unearned revenue	4,977,352	3,122,716	945,197	9,045,265
Total liabilities	<u>8,669,640</u>	<u>3,479,443</u>	<u>1,424,119</u>	<u>13,573,202</u>
Fund Balances:				
Reserved for encumbrances	185,949	-	31,303	217,252
Reserved for materials and supplies inventory	13,762	-	6,847	20,609
Reserved for property tax unavailable for appropriation	24,545	16,794	4,661	46,000
Reserved for school bus purchase	7,764	-	-	7,764
Reserved for textbooks/instructional supplies	203,255	-	-	203,255
Reserved for debt service	-	-	277,984	277,984
Reserved for advances	21,634	20,602	-	42,236
Reserved for permanent fund	-	-	4,269	4,269
Unreserved, undesignated (deficit), reported in:				
General fund	(2,200,855)	-	-	(2,200,855)
Special revenue funds	-	182,687	306,512	489,199
Capital projects funds	-	-	10,432	10,432
Total fund balances (deficit)	<u>(1,743,946)</u>	<u>220,083</u>	<u>642,008</u>	<u>(881,855)</u>
Total liabilities and fund balances	<u>\$ 6,925,694</u>	<u>\$ 3,699,526</u>	<u>\$ 2,066,127</u>	<u>\$ 12,691,347</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balance		\$ (881,855)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,260,103
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 977,089	
Intergovernmental receivable	<u>36,058</u>	
Total		1,013,147
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		10,024
In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest expenditures are reported when due.		(20,400)
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.		121,127
Unamortized premiums on bond issuance is not recognized in the funds.		(394,113)
Unamortized deferred charges on refundings are not recognized in the funds.		272,981
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(9,136,387)	
Early retirement incentive	(30,000)	
Compensated absences payable	<u>(1,304,606)</u>	
Total		<u>(10,470,993)</u>
Net assets of governmental activities		<u>\$ 910,021</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,416,706	\$ 3,042,279	\$ 717,963	\$ 9,176,948
Tuition	529,489	-	-	529,489
Charges for services	-	-	317,898	317,898
Earnings on investments	148,408	-	-	148,408
Extracurricular	-	-	92,168	92,168
Classroom materials and fees	17,947	-	88,549	106,496
Other local revenues	156,798	-	2,201	158,999
Intergovernmental - state	6,103,245	305,607	294,017	6,702,869
Intergovernmental - federal	-	-	1,260,139	1,260,139
Total revenues	<u>12,372,593</u>	<u>3,347,886</u>	<u>2,772,935</u>	<u>18,493,414</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,087,086	-	207,536	7,294,622
Special	971,769	-	747,499	1,719,268
Vocational	74,332	-	-	74,332
Adult	-	-	5,005	5,005
Other	43,797	-	-	43,797
Support services:				
Pupil	510,933	-	36,009	546,942
Instructional staff	327,544	-	167,804	495,348
Board of education	12,336	28,045	-	40,381
Administration	2,057,404	48,185	85,911	2,191,500
Fiscal	587,581	-	685	588,266
Business	64,291	-	-	64,291
Operations and maintenance	1,636,102	32,508	473,432	2,142,042
Pupil transportation	1,070,141	-	2,211	1,072,352
Central	27,220	-	16,803	44,023
Operation of non-instructional services:				
Other non-instructional services	38,973	-	9,187	48,160
Food service operations	-	-	752,888	752,888
Extracurricular activities	333,739	-	143,370	477,109
Debt service:				
Principal retirement	-	-	635,000	635,000
Interest and fiscal charges	59,539	-	267,294	326,833
Total expenditures	<u>14,902,787</u>	<u>108,738</u>	<u>3,550,634</u>	<u>18,562,159</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,530,194)</u>	<u>3,239,148</u>	<u>(777,699)</u>	<u>(68,745)</u>
Other financing sources/(uses):				
Transfers in	3,428,073	-	159,551	3,587,624
Transfers out	-	(3,587,624)	-	(3,587,624)
Total other financing sources/(uses)	<u>3,428,073</u>	<u>(3,587,624)</u>	<u>159,551</u>	<u>-</u>
Net change in fund balances	897,879	(348,476)	(618,148)	(68,745)
Fund balances (deficit) at beginning of year	(2,640,459)	568,559	1,265,805	(806,095)
Decrease in reserve for inventory	(1,366)	-	(5,649)	(7,015)
Fund balances (deficit) at end of year	<u>\$ (1,743,946)</u>	<u>\$ 220,083</u>	<u>\$ 642,008</u>	<u>\$ (881,855)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	(68,745)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital outlay	\$ 163,570	
Current year depreciation	(620,498)	
Total		(456,928)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		
		(7,015)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	81,927	
Intergovernmental revenues	(195,995)	
Total		(114,068)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		635,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the following:		
Decrease in accrued interest payable	27,806	
Accreted interest on capital appreciation bonds	(210,417)	
Amortization of bond issuance costs	(9,028)	
Amortization of bond premiums	29,375	
Amortization of deferred charges on refundings	(20,346)	
Total		(182,610)
Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(26,605)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.		
		26,692
Change in net assets of governmental activities	\$	(194,279)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,415,573	\$ 5,416,114	\$ 5,428,279	\$ 12,165
Tuition.	367,542	367,582	398,641	31,059
Earnings on investments.	136,379	136,393	147,918	11,525
Classroom material & fees.	16,621	16,622	18,027	1,405
Other local revenues.	148,189	148,205	160,728	12,523
Intergovernmental - State	5,756,599	5,757,222	6,243,685	486,463
Total revenues.	11,840,903	11,842,138	12,397,278	555,140
Expenditures:				
Current:				
Instruction:				
Regular	5,445,940	6,597,417	6,897,380	(299,963)
Special.	750,304	908,946	950,273	(41,327)
Vocational.	54,512	66,037	69,040	(3,003)
Support services:				
Pupil.	365,996	443,382	463,541	(20,159)
Instructional staff	239,558	290,209	303,404	(13,195)
Board of education.	11,514	13,949	14,583	(634)
Administration.	1,757,606	2,129,230	2,226,039	(96,809)
Fiscal.	500,964	606,887	634,480	(27,593)
Business	54,321	65,807	68,799	(2,992)
Operations and maintenance	1,429,392	1,731,619	1,810,350	(78,731)
Pupil transportation	837,227	1,014,248	1,060,363	(46,115)
Central	21,798	26,406	27,607	(1,201)
Operation of non-instructional services	31,042	37,605	39,315	(1,710)
Extracurricular activities.	262,644	318,177	332,643	(14,466)
Debt service:				
Principal retirement	355,200	355,200	355,200	-
Interest and fiscal charges	55,567	55,567	55,567	-
Total expenditures	12,173,585	14,660,686	15,308,584	(647,898)
Excess of expenditures over revenues.	(332,682)	(2,818,548)	(2,911,306)	(92,758)
Other financing sources (uses):				
Refund of prior year expenditure	-	-	45,285	45,285
Transfers in	-	-	3,428,073	3,428,073
Other miscellaneous (use) of funds	-	-	(41,970)	(41,970)
Total other financing sources (uses).	-	-	3,431,388	3,431,388
Net change in fund balance.	(332,682)	(2,818,548)	520,082	3,338,630
Fund balance at beginning of year	101,202	101,202	101,202	-
Prior year encumbrances appropriated.	492,756	492,756	492,756	-
Fund balance (deficit) at end of year	\$ 261,276	\$ (2,224,590)	\$ 1,114,040	\$ 3,338,630

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,160,431	\$ 3,328,479	\$ 3,282,541	\$ (45,938)
Intergovernmental - State	68,988	72,656	71,653	(1,003)
Total revenues	<u>3,229,419</u>	<u>3,401,135</u>	<u>3,354,194</u>	<u>(46,941)</u>
Expenditures:				
Current:				
Instruction:				
Regular	529,020	215,336	215,336	-
Special	14,111	5,744	5,744	-
Support Services:				
Pupil	22,300	9,077	9,077	-
Instructional staff	59,752	24,322	24,322	-
Administration	68,899	28,045	28,045	-
Fiscal	164,006	65,630	66,758	(1,128)
Operations and maintenance	79,863	32,508	32,508	-
Pupil transportation	73,785	30,034	30,034	-
Total expenditures	<u>1,011,736</u>	<u>410,696</u>	<u>411,824</u>	<u>(1,128)</u>
Excess of revenues over expenditures	<u>2,217,683</u>	<u>2,990,439</u>	<u>2,942,370</u>	<u>(48,069)</u>
Other financing uses:				
Transfers out	-	-	(3,587,624)	(3,587,624)
Advances out	-	-	(3,433)	(3,433)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(3,591,057)</u>	<u>(3,591,057)</u>
Net change in fund balance	2,217,683	2,990,439	(648,687)	(3,639,126)
Fund balance at beginning of year	<u>827,941</u>	<u>827,941</u>	<u>827,941</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,045,624</u>	<u>\$ 3,818,380</u>	<u>\$ 179,254</u>	<u>\$ (3,639,126)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents. . .	\$ 353,612
Total assets	353,612
Liabilities:	
Claims payable	343,588
Total liabilities	343,588
Net assets:	
Unrestricted.	10,024
Total net assets	\$ 10,024

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 2,565,581
Total operating revenues	<u>2,565,581</u>
Operating expenses:	
Claims expense	<u>2,538,889</u>
Total operating expenses	<u>2,538,889</u>
Change in net assets.	26,692
Net assets (deficit) at beginning of year. . .	<u>(16,668)</u>
Net assets at end of year.	<u>\$ 10,024</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,754,404
Cash payments for claims and administrative services	<u>(2,485,393)</u>
Net cash provided by operating activities	<u>269,011</u>
Cash and cash equivalents at beginning of year	<u>84,601</u>
Cash and cash equivalents at end of year.	<u><u>\$ 353,612</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 26,692
Changes in assets and liabilities:	
Decrease in due from other funds.	188,823
Increase in claims payable	<u>53,496</u>
Net cash provided by operating activities	<u><u>\$ 269,011</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	43,885
Receivables:		
Accounts		126
		<hr/>
Total assets	\$	44,011
		<hr/> <hr/>
Liabilities:		
Accounts payable.	\$	69
Due to students.		43,942
		<hr/>
Total liabilities	\$	44,011
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Liberty Local School (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The District is located in Northeast Ohio, in Trumbull County, in the greater metropolitan Youngstown area.

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

The District is the 315th largest by enrollment among the 876 public school districts in the state. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 75 non-certified and 122 certified personnel to provide services to approximately 1,722 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organizations resources; the (3) District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Management Information Network (NEOMIN)

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

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Emergency Levy Fund - The emergency levy fund is used to account for the proceeds from a special levy and is necessary to satisfy the District's emergency needs or to prevent school closings.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; (c) fund food service operations, and (d) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended Certificate issued during the fiscal year.

Appropriations:

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the basic financial statements.

During fiscal year 2007, investments were limited to common stock and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2007. 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, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$148,408, which includes \$97,576 assigned from other District funds.

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

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

G. Inventory

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds" and "interfund loans receivable/payable." On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds." These amounts are eliminated in government activities column on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. Compensated Absences

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

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

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

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

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

M. Fund Balance Reserves

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

N. Operating Revenues and Expenses

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consists of school bus purchases and textbook/instructional supplies.

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

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount received for school bus purchases and textbook and instructional supplies. See Note 17 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

R. Interfund Activity

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Governmental Fund</u>	
General fund	\$ 1,743,946
<u>Nonmajor Governmental Funds</u>	
Auxiliary Services	906
SchoolNet Professional Development	20
Summer Intervention	4,698
Title I	60,776
Title VI	358
Title IV	752
Title II-A	6,491
Permanent Improvement	1,678

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Compliance

- i.* Contrary to Ohio Revised Code Section 5705.10, the District had negative cash balances at December 31, 2006 and June 30, 2007.
- ii.* The District had expenditures in excess of appropriations in noncompliance with Ohio Revised Code Sections 5705.41(B) and 5705.40 at fiscal year end and throughout fiscal year 2007.
- iii.* The District had appropriations exceeding estimated resources in noncompliance with Ohio Revised Code Sections 5705.39 and 5705.36.
- iv.* The District had appropriations greater than actual resources at June 30, 2007 in noncompliance with Ohio Revised Code Section 5705.36(A)(4).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$2,440,560. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,365,715 of the District's bank balance of \$2,465,715 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 359,250	\$ 359,250
Common Stock *	20,616	20,616
Total	<u>\$ 379,866</u>	<u>\$ 379,866</u>

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

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 359,250	94.57%
Common Stock	20,616	5.43%
Total	<u>\$ 379,866</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,440,560
Investments	379,866
Cash on hand	250
Total	<u>\$ 2,820,676</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,776,791
Agency fund	43,885
Total	<u>\$ 2,820,676</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Advances to/from other funds consisted of the following at June 30, 2007, as reported on the fund statement:

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

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

Advances to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund transfers for the fiscal year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from emergency levy fund to:	
General fund	\$ 3,428,073
Nonmajor governmental funds	<u>159,551</u>
Total	<u>\$ 3,587,624</u>

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5704.14, 5705.15 and 5705.16.

- C.** Interfund loans receivable/payable consisted of the following at June 30, 2007, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
Emergency Levy	Nonmajor Governmental Fund	\$ 3,433

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- D. Interfund balances for the fiscal year ended June 30, 2007, consisted of the following due to/from other funds, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor Governmental Fund	\$ 752

The primary purpose of due to/from other funds is to cover a negative cash balance in a respective fund and to represent amounts owed between funds for goods or service provided. The general fund is liable for covering a cash deficit. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets. All amounts are to be repaid within one year.

Amounts due to/from other funds are eliminated for reporting on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of January 1, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007 and will be 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$24,545 in the general fund, \$16,794 in the emergency levy fund, \$3,960 in the debt service fund (a nonmajor governmental fund) and \$701 in the permanent improvement capital projects fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$36,118 in the general fund, \$23,102 in the emergency levy fund, \$5,662 in the debt service fund (a nonmajor governmental fund) and \$1,010 in the permanent improvement capital projects fund (a nonmajor governmental fund).

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 210,064,280	91.66	\$ 222,951,960	93.50
Public utility personal	7,825,500	3.41	7,378,460	3.10
Tangible personal property	<u>11,301,190</u>	<u>4.93</u>	<u>8,110,732</u>	<u>3.40</u>
Total	<u>\$ 229,190,970</u>	<u>100.00</u>	<u>\$ 238,441,152</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.60		\$55.60	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 10,068,354
Accounts	17,722
Intergovernmental	<u>115,062</u>
Total	<u>\$ 10,201,138</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 349,160	\$ -	\$ -	\$ 349,160
Total capital assets, not being depreciated	<u>349,160</u>	<u>-</u>	<u>-</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,985,322	-	-	1,985,322
Building and improvements	19,122,781	-	-	19,122,781
Furniture and equipment	722,867	43,972	-	766,839
Vehicles	1,143,294	119,598	-	1,262,892
Total capital assets, being depreciated	<u>22,974,264</u>	<u>163,570</u>	<u>-</u>	<u>23,137,834</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,293,289)	(89,954)	-	(1,383,243)
Building and improvements	(8,663,382)	(449,673)	-	(9,113,055)
Furniture and equipment	(538,236)	(24,010)	-	(562,246)
Vehicles	(1,111,486)	(56,861)	-	(1,168,347)
Total accumulated depreciation	<u>(11,606,393)</u>	<u>(620,498)</u>	<u>-</u>	<u>(12,226,891)</u>
Governmental activities capital assets, net	<u>\$ 11,717,031</u>	<u>\$ (456,928)</u>	<u>\$ -</u>	<u>\$ 11,260,103</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 453,978
Special	4,731
Vocational	327
<u>Support services:</u>	
Pupil	7,219
Instructional staff	10,576
Administration	11,772
Operations and maintenance	19,691
Pupil transportation	58,719
Central	2,114
Food service operations	48,358
Extracurricular activities	<u>3,013</u>
Total depreciation expense	<u>\$ 620,498</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance at <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/07</u>	Amounts Due in <u>One Year</u>
General obligation bonds	\$ 9,560,970	\$ 210,417	\$ (635,000)	\$ 9,136,387	\$ 600,000
Early retirement incentive	60,000	-	(30,000)	30,000	30,000
Compensated absences	<u>1,284,224</u>	<u>201,270</u>	<u>(154,128)</u>	<u>1,331,366</u>	<u>149,867</u>
Total	<u>\$ 10,905,194</u>	<u>\$ 411,687</u>	<u>\$ (819,128)</u>	10,497,753	<u>\$ 779,867</u>
Less: Unamortized deferred charge on refunding				(272,981)	
Add: Unamortized premium on refunding				<u>394,113</u>	
Total on statement of net assets				<u>\$ 10,618,885</u>	

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$9,930,000, and capital appreciation bonds, par value \$2,935,000. The interest rates on the current interest bonds range from 4.05% to 5.25%. The capital appreciation bonds mature on December 1, 2008 (effective interest 6.522%), December 1, 2009 (effective interest 6.576%), December 1, 2010 (effective interest 6.630%), December 1, 2011 (effective interest 6.632%) and December 1, 2012 (effective interest 6.736%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$1,269,918. Total accreted interest of \$1,076,227 has been included in the statement of activities.

During fiscal year 2007, the District made the required \$490,000 principal payment on the current interest bonds. None of the current interest or capital appreciation bonds were refunded.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year.

The following is a schedule of activity for fiscal year 2007 on the 1997 series general obligation bonds:

	Balance Outstanding <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/07</u>	Amounts Due in <u>One Year</u>
General obligation bonds - series 1997:					
Current interest bonds	\$ 1,015,000	\$ -	\$ (490,000)	\$ 525,000	\$ 525,000
Capital appreciation bonds	1,269,918	-	-	1,269,918	-
Accreted interest	<u>930,662</u>	<u>145,565</u>	<u>-</u>	<u>1,076,227</u>	<u>-</u>
Total G.O. bonds - series 1997	<u>\$ 3,215,580</u>	<u>\$ 145,565</u>	<u>\$ (490,000)</u>	<u>\$ 2,871,145</u>	<u>\$ 525,000</u>

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

Fiscal Year <u>Ending June 30,</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 525,000	\$ 357,525	\$ 882,525	\$ -	\$ -	\$ -
2009	-	-	-	278,018	281,982	560,000
2010	-	-	-	266,352	308,648	575,000
2011	-	-	-	252,591	332,409	585,000
2012	-	-	-	242,898	357,102	600,000
2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>230,059</u>	<u>384,941</u>	<u>615,000</u>
Total	<u>\$ 525,000</u>	<u>\$ 357,525</u>	<u>\$ 882,525</u>	<u>\$ 1,269,918</u>	<u>\$ 1,665,082</u>	<u>\$ 2,935,000</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The refunding issue is comprised of both current interest bonds, par value \$5,690,000, and capital appreciation bonds, par value \$1,530,000. The capital appreciation bonds mature December 1, 2014 and December 1, 2015 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$644,994. Total accreted interest of \$75,248 has been included in the statement of activities.

The following is a schedule of activity for fiscal 2007 on the 2006 series refunding bonds:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>One Year</u>	
Refunding bonds - series 2006:						
Current interest bonds	\$ 5,690,000	\$ -	\$ (145,000)	\$ 5,545,000	\$ 75,000	
Capital appreciation bonds	644,994	-	-	644,994	-	
Accreted interest	<u>10,396</u>	<u>64,852</u>	<u>-</u>	<u>75,248</u>	<u>-</u>	
Total refunding bonds - series 2006	<u>\$ 6,345,390</u>	<u>\$ 64,852</u>	<u>\$ (145,000)</u>	<u>\$ 6,265,242</u>	<u>\$ 75,000</u>	

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

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

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 75,000	\$ 228,304	\$ 303,304	\$ -	\$ -	\$ -
2009	75,000	225,679	300,679	-	-	-
2010	80,000	223,054	303,054	-	-	-
2011	80,000	220,254	300,254	-	-	-
2012	85,000	217,354	302,354	-	-	-
2013 - 2017	1,600,000	950,611	2,550,611	644,994	885,006	1,530,000
2018 - 2021	<u>3,550,000</u>	<u>362,923</u>	<u>3,912,923</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,545,000</u>	<u>\$ 2,428,179</u>	<u>\$ 7,973,179</u>	<u>\$ 644,994</u>	<u>\$ 885,006</u>	<u>\$ 1,530,000</u>

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, 2007 are a voted debt margin of \$12,744,099 (including available funds of \$281,944) and an unvoted debt margin of \$227,190.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - NOTES PAYABLE

The District issued tax anticipation notes on June 16, 2005. The notes were issued in anticipation of future tax revenue and the proceeds are used for general operations of the District. As such, the tax anticipation notes are reported as a liability of the general fund, the fund which received the proceeds.

The tax anticipation notes mature on December 10, 2010 and bear an interest rate of 3.47%. These notes are backed by the full faith and credit of the District. Principal and interest payments on the tax anticipation notes are scheduled to begin in fiscal year 2007. Future debt service requirements to retire the tax anticipation notes outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2008	\$ 355,200	\$ 43,139	\$ 398,339
2009	355,200	30,814	386,014
2010	355,200	18,488	373,688
2011	<u>355,200</u>	<u>6,163</u>	<u>361,363</u>
Total	<u>\$ 1,420,800</u>	<u>\$ 98,604</u>	<u>\$ 1,519,404</u>

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

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

C. Early Retirement Incentive

For fiscal year 2006, the District offered an early retirement incentive (ERI) of \$15,000 for certified employees and \$7,500 for classified employees. The ERI is limited to the first eight certified employees and first two classified employees who state their intention to retire in writing to the District no later than April 1, 2006 and retire no later than August 31, 2006. Three certified employees and two classified employees accepted this offer. The ERI will be paid in two equal installments on or before January 15, 2007 and January 15, 2008. Since the ERI will not be liquidated using current expendable financial resources, it has been recorded as a component of the governmental activities long-term obligations at June 30, 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

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

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

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2006.

B. Health Self Insurance

The District has elected to provide employee medical/surgical benefits through a self-insured program. The District maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss of this program. A third-party administrator, Professional Benefits Administrators, Inc. located in Akron, Ohio, reviews, and pays all claims. The District pays into the self-insurance Internal Service fund a premium that is paid by the fund that pays the salary for the employee and is based on historical cost information.

The claims liability of \$343,588 reported in the fund at June 30, 2007 is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims cost, including estimated of cost relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal years 2007 and 2006 are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2007	\$ 290,092	\$ 2,538,889	\$ (2,485,393)	\$ 343,588
2006	293,728	2,329,244	(2,332,880)	290,092

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers' Compensation Group Rating Plan

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$203,186, \$187,126, and \$185,411, respectively. 48.41 percent has been contributed for fiscal year 2007, 46.54 percent for fiscal year 2006 and 100 percent for fiscal year 2005. \$104,817 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$830,494, \$849,851, and \$829,640, respectively. 82.84 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$142,528 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$7,701 made by the District and \$16,760 made by the plan members.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/ STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$63,884 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of 0.10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$101,270 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS has 59,492 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance

	General Fund	Emergency Levy
Budget basis	\$ 520,082	\$ (648,687)
Net adjustment for revenue accruals	(24,685)	(6,308)
Net adjustment for expenditure accruals	183,085	303,086
Net adjustment for other sources/uses	(3,315)	3,433
Adjustment for encumbrances	222,712	-
GAAP basis	\$ 897,879	\$ (348,476)

NOTE 16 - CONTINGENCIES

A. Grants

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

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

NOTE 17 - STATUTORY RESERVES

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

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ 226,699	\$ -
Current year set-aside requirement	278,871	278,871
Qualifying disbursements	<u>(302,315)</u>	<u>(655,027)</u>
Total	<u>\$ 203,255</u>	<u>\$ (376,156)</u>
Balance carried forward to FY 2008	<u>\$ 203,255</u>	<u>\$ -</u>

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

In addition to the above statutory reserves, the District has \$7,764 in cash restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Restricted for school bus purchases	\$ 7,764
Restricted for textbooks/instructional supplies	<u>203,255</u>
Total restricted assets	<u>\$ 211,019</u>

SUPPLEMENTARY DATA

**LIBERTY LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
(B) Food Donation	10.550	N/A	\$ 32,342	\$ 32,342
Nutrition Cluster:				
(A), (C) School Breakfast Program	10.553	050195-05PU-2006	26,733	26,733
(A), (C) School Breakfast Program	10.553	050195-05PU-2007	78,474	78,474
Total School Breakfast Program			105,207	105,207
(A), (C) National School Lunch Program	10.555	050195-LLP4-2006	58,766	58,766
(A), (C) National School Lunch Program	10.555	050195-LLP4-2007	168,364	168,364
(A), (C) National School Lunch Program	10.555	050195-VGS1-2007	31,929	31,929
Total National School Lunch Program			259,059	259,059
Total Nutrition Cluster			364,266	364,266
Total U.S. Department of Agriculture			396,608	396,608
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I - Grants to Local Educational Agencies	84.010	050195-C1S1-2006	40,930	41,942
Title I - Grants to Local Educational Agencies	84.010	050195-C1S1-2007	257,251	239,952
Total Title I - Grants to Local Educational Agencies			298,181	281,894
Special Education - Grants to States	84.027	050195-6BSF-2006	98,356	212,202
Special Education - Grants to States	84.027	050195-6BSF-2007	273,503	239,448
Total Special Education - Grants to States			371,859	451,650
Safe and Drug-Free Schools and Communities - State Grants	84.186	050195-DRS1-2007	6,767	7,519
State Grants for Innovative Programs	84.298	050195-C2S1-2006	16	3,660
State Grants for Innovative Programs	84.298	050195-C2S1-2007	283	283
Total State Grants for Innovative Programs			299	3,943
(E) School Conflict Management	84.305F	N/A	2,800	2,613
Education Technology State Grants	84.318	050195-TJS1-2006	-	1,140
Education Technology State Grants	84.318	050195-TJS1-2007	2,267	1,990
Education Technology State Grants	84.318	050195-TJSL-2006	48,280	48,280
Total Education Technology State Grants			50,547	51,410
Improving Teacher Quality State Grants	84.367	050195-TRS1-2006	6,710	13,508
Improving Teacher Quality State Grants	84.367	050195-TRS1-2007	41,964	39,888
Total Improving Teacher Quality State Grants			48,674	53,396
Total U.S. Department of Education			779,127	852,425
Total Federal Financial Assistance			\$ 1,175,735	\$ 1,249,033

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at entitlement values.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) This schedule was prepared on the cash basis of accounting.
- (E) Passed through the Ohio Commission on Dispute Resolution & Conflict Management.



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Liberty Local School District's basic financial statements and have issued our report thereon dated February 2, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Liberty Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Liberty Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Liberty Local School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Liberty Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Liberty Local School District's financial statements that is more than inconsequential will not be prevented or detected by Liberty Local School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2007-LLSD-001 and 2007-LLSD-002 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Liberty Local School District's internal control.

Board of Education
Liberty Local School District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Liberty Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 six instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedules of findings and responses as items 2007-LLSD-003 through 2007-LLSD-008.

We noted certain other matters that we reported to the management of Liberty Local School District in a separate letter dated February 2, 2009.

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

This report is intended solely for the information and use of the management and Board of Education of Liberty Local School District 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.



Julian & Grube, Inc.
February 2, 2009



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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of Liberty Local School District, Trumbull County, Ohio, 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 fiscal year ended June 30, 2007. Liberty Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Liberty Local School District's management. Our responsibility is to express an opinion on Liberty Local School 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Liberty Local School 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 Liberty Local School District's compliance with those requirements.

In our opinion, Liberty Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of Liberty Local School 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 Liberty Local School District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Liberty Local School District's internal control over compliance.

Board of Education
Liberty Local School District

A control deficiency in Liberty Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Liberty Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Liberty Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Liberty Local School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management and Board of Education of Liberty Local School District 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.



Julian & Grube, Inc.
February 2, 2009

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-LLSD-001

Significant Deficiency

This District was unable to provide a comprehensive detailed listing of individual capital assets and related depreciation by asset tag acquired through June 30, 2007. This format includes, but is not limited to, the following: description of the asset, location of the asset, asset tag number, cost, voucher number and vendor name, date placed in service, estimated useful life, depreciation method, depreciation expense and accumulated depreciation for the fiscal year by asset and the date asset retired and selling price, if applicable.

While, alternative and various methods of testing were able to be performed for purposes of the audit, the District lacks internal controls over their reporting of capital assets.

We recommend the District consider consulting with an appraisal company or take a physical inventory of District assets with their own resources. We further suggest the District consider a “tagging” method of asset inventory and prepare a detailed schedule that supports the cost, book value, and depreciation schedule for each item. This schedule should then be maintained on a current basis. We further recommend the District re-evaluate its policies, procedures and controls regarding additions and disposals of capital assets.

Complete information such as described above on each capital asset may help provide additional controls for the safeguarding of these assets. Better assessment and evaluation could also be made regarding the reliability of certain capital assets and the District’s future needs for improvements and replacements.

Clients Response: The District obtained a complete appraisal in fiscal 2008.

Finding Number	2007-LLSD-002
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Significant Deficiency

The District lacks controls over timely and accurate financial reports. The District consults with a firm to prepare its annual GAAP financial statements; however, the final documentation to complete that process was not received until April 2007 and resolution regarding a 2002 audit adjustment was not resolved until 2008 which is beyond the deadline for filing the financial report with the Auditor of State’s Office and beyond the required deadline for the Federal Clearinghouse. The Auditor of State’s Office did obtain an extension of time to file with the Federal Clearinghouse on behalf of the District.

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

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

Clients Response: The Treasurer is aware of the requirements and the delay was due primarily to obtaining supporting documentation for a 2002 proposed audit adjustment that was not unresolved until 2008.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
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Finding Number	2007-LLSD-003
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Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Throughout the fiscal year the District had appropriations exceeding estimated resources. Thus, the District did not request enough amended certificates throughout the fiscal year upon notice of increased or decreased resources in order to equal or exceed appropriations.

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed estimated resources.

We recommend that the District review its available resources versus its appropriations throughout the fiscal year and file amended certificates when necessary. This will facilitate the District's appropriation process.

Client response: The Treasurer will attempt to monitor estimated resources throughout the fiscal year and request amendments as necessary.

Finding Number	2007-LLSD-004
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Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.

The District had total appropriations exceeding the total estimated resources at June 30, 2007 as follows.

<u>June 30, 2007</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
<u>Major Fund:</u>			
General	\$ 14,660,686	\$ 12,436,096	\$ 2,224,590
<u>Nonmajor Funds:</u>			
Auxilliary Services	58,861	49,158	9,703
Ohio Reads	19,977	9,372	10,605
Miscellaneous State Grants	3,557	-	3,557
Title II-A	71,942	62,941	9,001
Permanent Improvement	587,425	469,598	117,827

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LLSD-004 - (Continued)

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget throughout the fiscal year and at fiscal year end. If it is determined that estimated revenues will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a continual basis.

Client response: The Treasurer will attempt to monitor estimated resources and appropriations throughout the fiscal year and request amendments as necessary.

Finding Number	2007-LLSD-005
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

The District had expenditures exceeding appropriations in the following funds at June 30, 2007 as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>June 30, 2007</u>			
<u>Major Funds:</u>			
General	\$ 14,660,686	\$ 15,350,554	\$ 689,868
Emergency Levy	410,696	3,999,448	3,588,752
<u>Nonmajor Funds:</u>			
Public School Fund	78,268	88,461	10,193
Auxilliary Services	64,064	65,705	1,641
SchoolNet Professional Development	1,850	4,985	3,135
Ohio Reads	19,977	28,605	8,628
Summer Intervention	84	2,980	2,896
Poverty Aid	49,888	72,386	22,498
Title I	253,722	318,294	64,572
Title V	-	3,944	3,944
Title IV	-	7,519	7,519
Miscellaneous Federal Grants	54,486	55,539	1,053
Debt Service	1,326,315	1,326,606	291
Food Service	693,269	715,596	22,327
Self Insurance	2,452,100	2,485,394	33,294

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LLSD-005 - (Continued)

With expenditures exceeding appropriations, the District is unlawfully expending monies that have not been appropriated. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget as needed. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The Treasurer will attempt to monitor appropriations and expenditures throughout the year and amend the budget as necessary.

Finding Number	2007-LLSD-006
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Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by resolution and comply with the same provisions of the law as used in making the original appropriations.

The District did not timely modify its appropriations throughout the fiscal year.

By not timely and properly modifying the District's appropriations, the District is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that the District adopt accounting policies for amending appropriations, consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments as necessary. We recommend the District utilize its accounting software or a spreadsheet to help monitor the budget.

Client Response: The Treasurer will attempt to monitor appropriations and expenditures throughout the year and amend the budget as necessary.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
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Finding Number	2007-LLSD-007
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Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover the expenditures.

At December 31, 2006, the District maintained a negative cash fund balance in the following funds:

<u>Nonmajor Funds:</u>	<u>Cash</u> <u>Balance</u>
Bond Retirement	\$ (298,621)
Permanent Improvement	(42,123)
District Managed Activity	(12,803)
Ohio Reads	(4,946)
Title I	(86,644)
Improving Teach Quality	(24,717)

At June 30, 2007, the District maintained a negative cash fund balance in the following fund:

<u>Nonmajor Fund:</u>	<u>Cash</u> <u>Balance</u>
Safe and Drug-Free Schools and Communities - State Grants	\$ (752)

By having a negative fund balance, these funds have spent other funds' balances. This could indicate insufficient monitoring of appropriations and related expenditures and review of cash management. No fund should have a negative cash fund balance throughout the year or at year end. House Bill 276 became effective March 30, 2007 allowing negative cash fund balances in special funds if two criteria are met (1) the district has a request for payment pending with the state sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made and (2) the unspent and unencumbered balance in the district's general fund is greater than the aggregate of deficit amounts in all of the district's special funds.

We recommend that the District properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board approval. We recommend the District utilize its accounting software program to its fullest and continually review relevant reports to assist in preventing negative fund balances.

Client Response: The Treasurer will attempt to monitor cash balances throughout the fiscal year and request advances or transfers as necessary.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LLSD-008

Ohio Revised Code Section 5705.36 (A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At fiscal year end, the District had appropriations that were greater than actual resources, which consist of actual revenues, beginning fund balance and prior year encumbrances appropriated, in the following funds:

<u>Nonmajor Funds</u>	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
IDEA Part B	\$536,258	\$697,134	\$160,876
Improving Teacher Quality	69,681	71,942	2,261
Permanent Improvement Fund	486,479	587,425	100,946

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed actual resources.

We recommend the District monitor appropriations in comparison to actual resources and obtain decreased amended appropriations as needed. Further guidance may be found in Auditor of State bulletin 97-010.

Client Response: The Treasurer will attempt to monitor appropriations and actual resources throughout the year and amend the budget as necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-LLSD-001	Reportable Condition - This District was unable to provide a comprehensive detailed listing of capital assets in an easily auditable format including, but not limited to the following: description of the asset, location of the asset, asset tag number, cost, voucher number and vendor name, date placed in service, estimated useful life, depreciation method, depreciation expense and accumulated depreciation for the year by asset and the date asset retired and selling price if applicable.	No	Finding repeated as 2007-LLSD-001
2006-LLSD-002	Reportable Condition - The District lacks controls over timely and accurate financial reports.	No	Finding repeated as 2007-LLSD-002
2006-LLSD-003	Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.	No	Finding repeated as 2007-LLSD-003
2006-LLSD-004	Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.	No	Finding repeated as 2007-LLSD-004
2006-LLSD-005	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Finding repeated as 2007-LLSD-005
2006-LLSD-006	Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations.	No	Finding repeated as 2007-LLSD-006



Mary Taylor, CPA
Auditor of State

LIBERTY LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 7, 2009