



**Auditor of State
Betty Montgomery**

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

Table of Contents

Title	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison - General Fund	16
Statement of Fiduciary Net Assets - Fiduciary Funds	17
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	18
Notes to the Basic Financial Statements	19
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Liberty Center Local School District
Henry County
103 W. Young Street, P.O. Box 434
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Center Local School District, Henry County, (the District), as of and for the year ended June 30 2004 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Center Local School District, Henry County, Ohio, as of June 30 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As described in Note 9, during the year ended June 30, 2004, the School District changed its fixed asset capitalization policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2005, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

April 14, 2005

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

The discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$514,478.
- General revenues accounted for \$8,262,642, or 85 percent of all revenues. Program specific revenues in the form of, charges for services operating grants and contributions accounted for \$1,416,060 or 15 percent of total revenues of \$9,680,728.
- The District's major fund is the general fund. The general fund had \$8,398,136 in revenues and other financing sources and \$9,038,706 in expenditures and other financing uses. The general fund's balance decreased \$640,570 from the prior fiscal year. This was mostly due to reduced income tax and increased salaries and fringe benefits.
- The revenue generated from the debt service fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater 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 non-major funds presented in total in a single column.

For the District, the general fund is by far the most significant fund. The general fund is the only major fund.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes 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 District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General fund. While the District uses many funds to account for its financial transactions, this is the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1
Net Assets
(In Thousands)
Governmental Activities

	2004
Assets:	
Current and Other Assets	\$ 6,168,229
Capital Assets, Net	8,303,053
<i>Total Assets</i>	14,471,282
 Liabilities:	
Current and Other Liabilities	4,577,657
Long-Term Liabilities	3,577,033
<i>Total Liabilities</i>	8,154,690
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,506,521
Restricted	288,109
Unrestricted	521,962
<i>Total</i>	\$ 6,316,592

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
(In Thousands)
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 889,637
Operating Grants, Contributions and Interest	526,423
<i>Total Program Revenues</i>	1,416,060

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 (Continued)
Change in Net Assets
(In Thousands)
Governmental Activities

	2004
General Revenues:	
Property Taxes	2,518,553
Income Taxes	582,087
Grants and Entitlements	5,036,311
Investment Earnings	36,634
Gifts and Donations	55,654
Miscellaneous	33,403
<i>Total General Revenues</i>	8,262,642
<i>Total Revenues</i>	9,678,702
 Expenses:	
Instruction	5,446,227
Support Services:	
Pupils	600,134
Instructional Staff	291,079
Board of Education	40,934
Administration	802,146
Fiscal	272,765
Operation and Maintenance of Plant	879,621
Pupil Transportation	467,547
Central	372,123
Non-Instructional	459,512
Extracurricular Activities	414,143
Capital Outlay	78,594
Interest and Fiscal Charges	68,355
<i>Total Expenses</i>	10,193,180
<i>Decrease in Net Assets</i>	\$ (514,478)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 3
Governmental Activities
(In Thousands)
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$ 5,446,227	\$ 4,576,952
Support Services:		
Pupils	600,134	600,134
Instructional Staff	291,079	280,712
Board of Education	40,934	40,934
Administration	802,146	802,146
Fiscal	272,765	272,765
Operation and Maintenance of Plant	879,621	879,621
Pupil Transportation	467,547	467,547
Central	372,123	362,025
Non-Instructional	459,512	82,034
Extracurricular Activities	414,143	265,301
Capital Outlay	78,594	78,594
Interest and Fiscal Charges	68,355	68,355
<i>Total Expenses</i>	<u>\$ 10,193,180</u>	<u>\$ 8,777,120</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 84 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. The remaining 13 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$12,969,441 and expenditures and other financing uses of \$13,585,251. The net negative change of \$615,810 in fund balance for the year indicates that the District used prior period resources in meeting current costs.

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 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$9,495,714 while actual expenditures were \$9,284,989. The \$210,725 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$8,303,053 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$2,935,000 in school improvement general obligation bonds for building improvements. The bonds were originally issued in 1994 for a twenty-five year period. In 2003, the bonds were refunded and issued with final maturity on December 1, 2017. The bonds are being retired through the Bond Retirement debt service fund.

At June 30, 2004, the District's overall legal debt margin was \$5,966,769, with an un-voted debt margin of \$98,909.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Liberty Center is a small rural community of 6,000 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The district is currently operating in the second year of the state biennium budget. 44.8 percent of district revenue sources are from local funds, 51.8 percent from state funds and the remaining 3.4 percent is from federal funds. The total expenditure per pupil was calculated at \$7,725.

The financial position of the District is beginning to deteriorate. For the past two fiscal years the District has been in deficit spending, but has still maintained a healthy ending cash balance. Future finances include challenges as state funding is revised and local funding decisions are necessary. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory. Locally, the District has begun to reduce staff and expenditures and will soon need to seek additional operating funds through a tax levy. The last operating levy was a 1 percent income tax issue in 1995.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jennifer Bonner, Treasurer, Liberty Center Local School District, P.O. Box 434, Liberty Center, Ohio 43532.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,862,362
Materials and Supplies Inventory	33,728
Accrued Interest Receivable	3,989
Accounts Receivable	22,888
Intergovernmental Receivable	13,507
Taxes Receivable	3,728,978
Income Taxes Receivable	364,309
Unamortized Bond Issue Costs	138,468
Capital Assets:	
Non-Depreciable Capital Assets	1,014,877
Depreciable Capital Assets, net	7,288,176
<i>Total Assets</i>	14,471,282
Liabilities	
Accounts Payable	8,774
Accrued Wages and Benefits	877,421
Intergovernmental Payable	183,129
Deferred Revenue	3,477,100
Long-Term Liabilities:	
Due Within One Year	267,457
Due in More Than One Year	3,340,809
<i>Total Liabilities</i>	8,154,690
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,506,521
Restricted for Debt Service	255,535
Restricted for Other Purposes	32,574
Unrestricted	521,962
<i>Total Net Assets</i>	\$ 6,316,592

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 3,989,423	\$ 471,332	\$ 217,344	\$ (3,300,747)
Special	1,038,812		180,599	(858,213)
Vocational	154,164			(154,164)
Other	263,828			(263,828)
Support Services:				
Pupils	600,134			(600,134)
Instructional Staff	291,079		10,367	(280,712)
Board of Education	40,934			(40,934)
Administration	802,146			(802,146)
Fiscal	272,765			(272,765)
Operation and Maintenance of Plant	879,621			(879,621)
Pupil Transportation	467,547			(467,547)
Central	372,123		10,098	(362,025)
Operation of Non-Instructional Services	459,512	269,463	108,015	(82,034)
Extracurricular Activities	414,143	148,842		(265,301)
Capital Outlay	78,594			(78,594)
Debt Service:				
Interest and Fiscal Charges	68,355			(68,355)
Totals	\$ 10,193,180	\$ 889,637	\$ 526,423	(8,777,120)

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	2,239,025
Property Taxes, Levied for Debt Service	279,528
Income Taxes	582,087
Grants and Entitlements not Restricted to Specific Programs	5,036,311
Gifts and Donations	55,654
Investment Earnings	36,634
Miscellaneous	33,403
Total General Revenues	8,262,642
<i>Change in Net Assets</i>	(514,478)
Net Assets Beginning of Year	6,831,070
Net Assets End of Year	\$ 6,316,592

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,558,438	\$ 303,924	\$ 1,862,362
Materials and Supplies Inventory	13,827	19,901	33,728
Accrued Interest Receivable	3,989		3,989
Accounts Receivable	21,732	1,156	22,888
Interfund Receivable	4,405		4,405
Intergovernmental Receivable		13,507	13,507
Taxes Receivable	3,363,650	365,328	3,728,978
Income Taxes Receivable	364,309		364,309
<i>Total Assets</i>	<u>\$ 5,330,350</u>	<u>\$ 703,816</u>	<u>\$ 6,034,166</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 8,222	\$ 552	\$ 8,774
Accrued Wages and Benefits	846,948	30,473	877,421
Interfund Payable		4,405	4,405
Intergovernmental Payable	115,231	4,223	119,454
Matured Compensated Absences Payable	31,233		31,233
Deferred Revenue	3,255,776	341,257	3,597,033
<i>Total Liabilities</i>	<u>4,257,410</u>	<u>380,910</u>	<u>4,638,320</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	21,969	2,234	24,203
Reserved for Property Taxes	171,959	24,489	196,448
Unreserved, Undesignated, Reported in:			
General Fund	879,012		879,012
Special Revenue Funds		70,630	70,630
Debt Service Funds		225,553	225,553
<i>Total Fund Balances</i>	<u>1,072,940</u>	<u>322,906</u>	<u>1,395,846</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 5,330,350</u>	<u>\$ 703,816</u>	<u>\$ 6,034,166</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ 1,395,846
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,303,053
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		119,933
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(63,675)
Unamortized Bond Issue Costs		138,468
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(3,073,468)	
Compensated Absences Payable	(503,565)	
	(3,577,033)	(3,577,033)
Net Assets of Governmental Activities		\$ 6,316,592

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property and Other Local Taxes	\$ 2,229,480	\$ 278,083	\$ 2,507,563
Income Tax	518,002		518,002
Intergovernmental	5,090,820	472,484	5,563,304
Interest	34,071	2,563	36,634
Tuition and Fees	468,810	497	469,307
Rent	2,025		2,025
Extracurricular Activities		148,842	148,842
Gifts and Donations	43,264	12,390	55,654
Customer Sales and Services		269,463	269,463
Miscellaneous	10,954	21,739	32,693
<i>Total Revenues</i>	<u>8,397,426</u>	<u>1,206,061</u>	<u>9,603,487</u>
Expenditures			
Current:			
Instruction:			
Regular	3,824,045	86,689	3,910,734
Special	911,285	112,322	1,023,607
Vocational	145,140	384	145,524
Other	263,828		263,828
Support Services:			
Pupils	514,020	72,830	586,850
Instructional Staff	257,562	17,997	275,559
Board of Education	40,934		40,934
Administration	738,202	21,046	759,248
Fiscal	255,390	7,476	262,866
Operation and Maintenance of Plant	883,292		883,292
Pupil Transportation	523,467	676	524,143
Central	371,118	19,628	390,746
Operation of Non-Instructional Services		417,863	417,863
Extracurricular Activities	223,829	174,035	397,864
Capital Outlay	78,594		78,594
Debt Service:			
Principal		190,000	190,000
Interest		68,355	68,355
Bond Issue Costs		83,884	83,884
<i>Total Expenditures</i>	<u>9,030,706</u>	<u>1,273,185</u>	<u>10,303,891</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(633,280)</u>	<u>(67,124)</u>	<u>(700,404)</u>

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004
(Continued)**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources and (Uses)			
Transfers In		8,000	8,000
General Obligation Bonds Issued		3,125,000	3,125,000
Proceeds from Sale of Fixed Assets	710		710
Transfers Out	(8,000)		(8,000)
Payment to Refunded Bond Escrow Agent		(3,273,360)	(3,273,360)
Premium on Sale of Bonds		232,244	232,244
<i>Total Other Financing Sources and Uses</i>	<u>(7,290)</u>	<u>91,884</u>	<u>84,594</u>
<i>Net Change in Fund Balances</i>	(640,570)	24,760	(615,810)
Fund Balance (Deficit) at Beginning of Year	<u>1,713,510</u>	<u>298,146</u>	<u>2,011,656</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,072,940</u>	<u>\$ 322,906</u>	<u>\$ 1,395,846</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds **\$ (615,810)**

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	362,496	
Depreciation	<u>(411,416)</u>	
		(48,920)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(4,281)
---	--	---------

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(570)	
Income Taxes	64,085	
Delinquent Property Taxes	<u>10,990</u>	
		74,505

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

190,000

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(12,724)	
Compensated Absences Payable	<u>(97,248)</u>	
		<u>(109,972)</u>

Change in Net Assets of Governmental Activities **\$ (514,478)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property and Other Local Taxes	\$ 2,222,590	\$ 2,222,590	\$ 2,248,270	\$ 25,680
Income Tax	877,000	877,000	853,681	(23,319)
Intergovernmental	5,110,158	5,110,158	5,115,511	5,353
Interest	45,000	45,000	43,587	(1,413)
Tuition and Fees	379,050	379,050	457,215	78,165
Rent	3,000	3,000	2,025	(975)
Gifts and Donations	55,000	55,000	43,264	(11,736)
Miscellaneous	20,000	20,000	6,386	(13,614)
<i>Total Revenues</i>	<u>8,711,798</u>	<u>8,711,798</u>	<u>8,769,939</u>	<u>58,141</u>
Expenditures				
Current:				
Instruction:				
Regular	4,073,525	4,117,640	4,056,839	60,801
Special	735,570	923,370	911,143	12,227
Vocational	151,100	155,900	154,216	1,684
Other	235,500	264,500	263,828	672
Support Services:				
Pupils	514,910	513,510	502,108	11,402
Instructional Staff	357,748	310,218	255,192	55,026
Board of Education	50,670	32,210	29,020	3,190
Administration	740,671	734,826	721,743	13,083
Fiscal	248,670	251,420	246,950	4,470
Operation and Maintenance of Plant	915,559	901,474	879,429	22,045
Pupil Transportation	525,850	518,490	506,561	11,929
Central	359,460	375,750	369,856	5,894
Extracurricular Activities	226,800	228,090	223,921	4,169
Capital Outlay	114,881	155,816	151,778	4,038
<i>Total Expenditures</i>	<u>9,250,914</u>	<u>9,483,214</u>	<u>9,272,584</u>	<u>210,630</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(539,116)</u>	<u>(771,416)</u>	<u>(502,645)</u>	<u>268,771</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	500	500	710	210
Refund of Prior Year Expenditures	1,320	1,320	2,844	1,524
Transfers Out	(12,000)	(8,000)	(8,000)	-
Advances Out	-	(4,500)	(4,405)	95
Other Financing Uses	(15,000)	-	-	-
<i>Total Other Financing Sources and Uses</i>	<u>(25,180)</u>	<u>(10,680)</u>	<u>(8,851)</u>	<u>1,829</u>
<i>Net Change in Fund Balances</i>	<u>(564,296)</u>	<u>(782,096)</u>	<u>(511,496)</u>	<u>270,600</u>
Fund Balance (Deficit) at Beginning of Year	1,940,014	1,940,014	1,940,014	-
Prior Year Encumbrances Appropriated	107,204	107,204	107,204	-
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,482,922</u>	<u>\$ 1,265,122</u>	<u>\$ 1,535,722</u>	<u>\$ 270,600</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 2,692	\$ 25,768
Notes Receivable	1,000	
<i>Total Assets</i>	<u>3,692</u>	<u>25,768</u>
Liabilities		
Current Liabilities:		
Undistributed Monies		<u>25,768</u>
<i>Total Liabilities</i>		<u>25,768</u>
Net Assets		
Held in Trust for Scholarships	<u>3,692</u>	
<i>Total Net Assets</i>	<u>\$ 3,692</u>	<u> </u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust</u>
Additions	
Interest	\$ 8
Miscellaneous	2,018
<i>Total Additions</i>	<u>2,026</u>
Deductions	
Payments in Accordance with Trust Agreements	1,321
<i>Total Deductions</i>	<u>1,321</u>
<i>Change in Net Assets</i>	705
Net Assets Beginning of Year	2,987
<i>Net Assets End of Year</i>	<u>\$ 3,692</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Liberty Center Local School District (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. Liberty Center Local School District is a local school district as defined by §3311.22 of 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 Board oversees the operations of the District's seven instructional/support facilities staffed by 50 non-certified and 81 certified full-time teaching personnel who provide services to 1,185 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization, and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Liberty Center Public Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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 provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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. The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. 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 charges paid by the recipient of the 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, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund is the only major governmental fund:

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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for college scholarships and no interest loans for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

C. Measurement Focus

Government-wide Financial Statements

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. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

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.

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. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

E. Budgetary Process

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. The Treasurer submits an annual tax budget for the following fiscal year to the School Board by January 15, for consideration and passage. The adopted budget is submitted to the

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

County Auditor, as Secretary of the Council Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following year.

2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
3. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level of expenditures which is the legal level of budgetary control. (State statute permits temporary appropriation to be effective until no later than October 1 of each year.)

Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed appropriations at the legal level of control.

4. Any revisions that alter the total of any object appropriation for any fund must be approved by the Board of Education.

The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

5. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level, function and/or object level.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year-end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as 'equity in pooled cash and cash equivalents' on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio, certificates of deposits, and federal government securities. Certificates of deposit are non-negotiable and are reported at cost, which approximates fair value. Federal government securities are reported at fair value, which is based on quoted market price.

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, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$34,071 and \$2,571 to other District funds.

For presentation of the 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 that are not purchased from the pool are reported as investments.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

H. Capital Assets

General capital assets are those assets not specifically related to activities. 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 on the fund financial statements.

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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' 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. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

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

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

M. Fund Balance Reserves and Designations

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 and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

N. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Estimates

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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

P. Pass-Through Grants

The Title VI-B and the Handicapped Preschool special revenue funds are pass-through grants in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance" the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

Q. 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 District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus;" GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37, and 38.

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

The government-wide financial statements split the District's programs between governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2003	\$ 1,637,331	\$ 249,335	\$ 1,886,666
GASB Statement 34 Adjustment			
Change in Fund Structure - Enterprise		26,151	26,151
Interpretation 6 Adjustments:			
Compensated Absences Payable	76,179	22,660	98,839
<i>Adjusted Fund Balance</i>	<u>\$ 1,713,510</u>	<u>\$ 298,146</u>	<u>2,011,656</u>
GASB 34 Adjustments:			
Deferred Revenue			45,430
Capital Assets			8,356,252
Long-Term Liabilities			(3,582,268)
<i>Governmental Activities Net Assets at June 30, 2003</i>			<u>\$ 6,831,070</u>

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Net Change in Fund Balance Major Governmental Fund	
	General
GAAP Basis	\$ (640,570)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	573,037
Accrued FY 2004, Not Yet Received in Cash	(497,904)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(906,744)
Accrued FY 2004, Not Yet Paid in Cash	987,807
Advances Net	(4,405)
Encumbrances Outstanding at Year End (Budget Basis)	(22,717)
Budget Basis	\$ (511,496)

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

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

Interim monies may be 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;

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase 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.

At year end, the School District had \$187 in undeposited cash on hand, which is included on the balance sheet of the School district as port of "Equity in pooled cash and equivalents.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$1,186,439 and the bank balance was \$1,263,681. Of the bank balance:

1. \$150,000 was covered by Federal Depository Insurance; and

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2. \$1,113,681 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the district held to a successful claim by the FDIC.

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004 were as follows:

	Carrying Value	Fair Value
STAR Ohio	\$ 704,196	\$ 704,196

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$ 1,890,822	\$ -
Cash on Hand	(187)	-
Investments:		
STAR Ohio	(704,196)	704,196
GASB Statement No. 3	\$ 1,186,439	\$ 704,196

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry and Fulton Counties. The County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$171,959 in the General Fund, and \$24,489 in the Debt Service Fund. The amount available as an advance at June 30, 2003, was \$189,669 in the General Fund, and \$27,229 in the Debt Service Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 73,122,160	77%	\$ 75,998,420	77%
Industrial/Commercial	4,710,990	5%	5,935,350	6%
Public Utility	8,614,170	9%	8,950,140	9%
Tangible Personal	8,619,870	9%	8,024,613	8%
Total Assessed Value	<u>\$ 95,067,190</u>	<u>100%</u>	<u>\$ 98,908,523</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$ 44.80		\$ 44.80	

7. INCOME TAX

In 1995, the voters of the Liberty Center Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2004, the District recorded income tax revenue of \$518,002 in the General Fund, of which \$364,309 is recorded as a receivable at June 30, 2004.

8. RECEIVABLES

Receivables at June 30, 2004, consisted of property, accounts (rent and student fees), intergovernmental, and accrued interest. 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 intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$ 12,134
Drug Free Schools	1,129
Miscellaneous Federal	244
Total Intergovernmental Receivables	<u>\$ 13,507</u>

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Non Depreciable Capital Assets				
Land	\$ 1,014,877			\$ 1,014,877
Depreciable Capital Assets				
Land Improvements	417,542	\$ 3,522		421,064
Buildings and Building Improvements	10,162,019	156,171		10,318,190
Permanent Fixtures	539,088	4,995		544,083
Equipment	582,324	33,452	\$ 4,029	611,747
Computers	476,469	43,823	87,342	432,950
Musical Instruments	97,879	6,368	1,800	102,447
Vehicles	955,025	114,165	63,551	1,005,639
<i>Total Depreciable Capital Assets</i>	<u>13,230,346</u>	<u>362,496</u>	<u>156,722</u>	<u>13,436,120</u>
Less Accumulated Depreciation				
Land Improvements	45,163	20,921		66,084
Buildings and Building Improvements	4,227,350	215,451		4,442,801
Permanent Fixtures	176,758	35,137		211,895
Equipment	336,243	48,911	4,029	381,125
Computers	411,817	39,234	87,344	363,707
Musical Instruments	69,841	2,101	1,800	70,142
Vehicles	621,799	49,661	59,270	612,190
<i>Total Accumulated Depreciation</i>	<u>5,888,971</u>	<u>411,416</u>	<u>152,443</u>	<u>6,147,944</u>
<i>Depreciable Capital Assets, Net</i>	<u>7,341,375</u>	<u>(48,920)</u>	<u>4,279</u>	<u>7,288,176</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 8,356,252</u>	<u>\$ (48,920)</u>	<u>\$ 4,279</u>	<u>\$ 8,303,053</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 164,018
Special	23,976
Vocational	7,847
Support Services:	
Pupil	14,741
Instructional Staff	8,785
Administration	12,846
Fiscal	2,217
Operation and Maintenance of Plant	27,427
Pupil Transportation	54,432
Central	13,128
Non-Instructional Services	19,819
Extracurricular	62,180
<i>Total Depreciation Expense</i>	<u>\$ 411,416</u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The District restated Capital Assets (at cost) at the beginning of the year as follows:

Balance at June 30, 2003	\$ 16,052,340
Restatement	(1,807,117)
<i>Balance, Restated</i>	<u>\$ 14,245,223</u>

The decrease in the capital asset balance was due to a change in the districts capitalization threshold from \$250 to \$1,000.

10. RISK MANAGEMENT

A. Schools of Ohio Risk Sharing Authority

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 participates in the Schools of Ohio Risk Sharing Authority, Inc for insurance coverage. Coverages provided are as follows:

Property Insurance	\$24,077,039
Automobile Liability	4,000,000
Error and Omissions	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
Total per Year	6,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. 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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current 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 2004, 9.09 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$113,901, \$94,939, and \$61,698, respectively; 59 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$46,375.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 D 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, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$559,593, \$539,005, and \$374,642, respectively; 85 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$83,716.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. 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 2004, the minimum pay has been established as \$25,400. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .35072, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 Days. Employees with less than one year of service earn no vacation. Certain employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days for non-union employees and 53 days for certified and classified union employees.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Issue	Due	Rate	Balance at 06/30/03	Increase	Decrease	Balance at 06/30/04	Amount Due In one Year
General Obligation Bonds	1994	2019	variable	\$ 3,125,000	\$ -	\$ 3,125,000	\$ -	\$ -
School Improvement Refunding	2003	2017	variable	-	3,125,000	190,000	2,935,000	215,000
<i>Total GO Bonds</i>				<u>3,125,000</u>	<u>3,125,000</u>	<u>3,315,000</u>	<u>2,935,000</u>	<u>215,000</u>
Other Long Term Obligations								
SERS and SERS Surcharge				50,951	-	50,951	-	
Compensated Absences				406,317	534,798	406,317	534,798	52,457
<i>Total Other Long Term Obligations</i>				<u>457,268</u>	<u>534,798</u>	<u>457,268</u>	<u>534,798</u>	<u>52,457</u>
<i>Total Governmental Activities</i>				<u>\$ 3,582,268</u>	<u>\$ 3,659,798</u>	<u>\$ 3,772,268</u>	<u>3,469,798</u>	<u>\$ 267,457</u>
Less: Unamortized deferred charge on refunding							(78,292)	
Add: Unamortized premium of refunding							216,760	
<i>Total on Statement of Net Assets</i>							<u>\$ 3,608,266</u>	

Debt outstanding at June 2004 consisted of General Obligation School Improvement Refunding Bonds totaling \$2,935,000. The bonds were issued in September 2003 and will mature in December 2017. The interest rate at June 30, 2004 was 1.5 percent to 4.39 percent for the general obligation bonds.

On September 1, 2003, the District issued general obligation bonds (Series 2003 School Improvement Refunding Bonds) to currently refund the callable portion of the School Improvement General Obligation Bonds (principal \$3,125,000; interest rate 1.5 to 4.3 percent). The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

The refunding issue is comprised of current interest bonds, par value \$2,985,000 and capital appreciation bonds with a par value of \$140,000. The annual interest rate on the current interest bonds is variable, not to exceed 4.30 percent and the annual interest rate on the capital appreciation bonds is 15.777 percent.

This current refunding was undertaken to reduce total debt service payments over the next 15 years by \$620,901 and resulted in an economic gain of \$361,478.

The refunding bonds outstanding 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 these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current tax levy.

Total expenditures for interest for the above debt for the period ended June 30, 2004 was \$68,355.

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Year Ending June 30,	Principal	Interest	Total
2005	\$ 215,000	\$ 88,578	\$ 303,578
2006	225,000	84,715	309,715
2007	225,000	79,934	304,934
2008	230,000	74,527	304,527
2009	235,000	68,127	303,127
2010-2014	900,000	636,259	1,536,259
2015-2017	905,000	64,465	969,465
<i>Total</i>	<u>\$ 2,935,000</u>	<u>\$ 1,096,605</u>	<u>\$ 4,031,605</u>

15. SET-ASIDE CALCULATIONS AND FUND 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 year-end 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 acquisitions. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Balance as of June 30, 2003	\$ (149,519)	\$ -
Current Year Set-aside Requirement	160,469	160,469
Qualifying Disbursements	(174,475)	(225,545)
<i>Total</i>	<u>\$ (163,525)</u>	<u>\$ (65,076)</u>
Set-Aside Balance Carried Forward to FY 2005	<u>\$ (163,525)</u>	<u>\$ -</u>

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

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook and instructional material set-aside requirements.

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$50,546. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,250. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

17. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$847,046. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC 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 Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$886 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$44,792 for these services to SORSA in fiscal year 2004.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of Superintendents, Treasurers, or Business Managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

18. RELATED ORGANIZATION

Liberty Center Public Library

The Liberty Center Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Liberty Center Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Trustees. Financial information can be obtained from the Liberty Center Public Library, Connie Busch, Clerk/Treasurer, at 111 East Street, Liberty Center, Ohio 43532.

19. SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

20. INTERFUND TRANSFERS

During the year ended June 30, 2004, the General Fund transferred \$8,000 to Other Non-major Governmental Funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

21. INTERFUND ASSETS/LIABILITIES

As of June 30, 2004, on the fund financial statements, the Lunch Room, the Drug Free School Grant, and the Title II-D Technology Grant special revenue funds owed the General Fund \$3,451, \$711, and \$243 respectively. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

22. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Liberty Center Local School District
Henry County
103 W. Young Street, P.O. Box 434
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Center Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 14, 2005 in which we noted the District adopted Government Accounting Standards Board Statement 34 and changed its fixed asset capitalization policy. 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 the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

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

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 14, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**LIBERTY CENTER LOCAL SCHOOL DISTRICT
HENRY 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 12, 2005**