



**Dave Yost • Auditor of State**

**Liberty Local School District  
Trumbull County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2014**

**Local Government Services Section**



Liberty Local School District  
Trumbull County

Table of Contents

Title	Page
Table of Contents .....	1
Certification .....	3
Independent Accountant’s Report.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2011 through 2013 Actual; Fiscal Year Ending June 30, 2014 Forecasted .....	6
Summary of Significant Forecast Assumptions and Accounting Policies.....	7

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# Dave Yost • Auditor of State

Financial Planning and Supervision Commission  
Liberty Local School District  
Ohio Department of Education  
25 South Front Street  
Columbus, Ohio 43215

and

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

## CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Liberty Local School District, Trumbull County, Ohio, and issued a report dated January 28, 2014. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus of \$1,143,000 for the fiscal year ending June 30, 2014.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2015 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2014.

DAVE YOST  
Auditor of State

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Unice S. Smith  
Chief of Local Government Services

March 13, 2014

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# Dave Yost • Auditor of State

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

## Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Liberty Local School District for the fiscal year ending June 30, 2014. The Liberty Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The statement of revenues, expenditures and changes in fund balance arising from cash transactions of the general fund for the fiscal years ended June 30, 2011, 2012, and 2013 were compiled by us and we have not audited or reviewed the accompanying financial statements, and, accordingly, we do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. Our responsibility is to conduct the compilation in accordance with Statements for Accounting and Review services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that no material modifications that should be made to the financial statements. Management has chosen to omit the disclosures associated with the cash basis of accounting.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST  
Auditor of State

January 28, 2014

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**Liberty Local School District**  
Trumbull County  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Years Ended June 30, 2011 Through 2013 Actual;  
For the Fiscal Year Ending June 30, 2014 Forecasted  
General Fund

	Fiscal Year 2011 Actual	Fiscal Year 2012 Actual	Fiscal Year 2013 Actual	Fiscal Year 2014 Forecasted
<b>Revenues</b>				
General Property Tax	\$7,245,000	\$7,156,000	\$7,128,000	\$7,292,000
Tangible Personal Property Tax	26,000	0	2,000	0
Unrestricted Grants-in-Aid	4,943,000	4,962,000	5,078,000	4,726,000
Restricted Grants-in-Aid	16,000	12,000	9,000	290,000
Restricted Federal Grants-in-Aid - SFSF and Education Jobs	589,000	5,000	0	0
Property Tax Allocation	1,699,000	1,413,000	1,297,000	1,273,000
All Other Revenues	806,000	1,423,000	1,271,000	1,122,000
<i>Total Revenues</i>	<u>15,324,000</u>	<u>14,971,000</u>	<u>14,785,000</u>	<u>14,703,000</u>
<b>Other Financing Sources</b>				
Solvency Assistance Advance	0	1,921,000	0	0
Advances In	0	0	0	34,000
<i>Total Other Financing Sources</i>	<u>0</u>	<u>1,921,000</u>	<u>0</u>	<u>34,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>15,324,000</u>	<u>16,892,000</u>	<u>14,785,000</u>	<u>14,737,000</u>
<b>Expenditures</b>				
Personal Services	7,301,000	6,949,000	6,466,000	6,025,000
Employees' Retirement/Insurance Benefits	3,376,000	3,811,000	1,861,000	2,442,000
Purchased Services	3,911,000	2,667,000	2,719,000	2,833,000
Supplies and Materials	261,000	253,000	237,000	256,000
Capital Outlay	12,000	1,000	56,000	38,000
Debt Service:				
Solvency Assistance Advance	0	0	961,000	961,000
Principal - House Bill 264 Loan	0	155,000	155,000	155,000
Principal - Tax Anticipation Notes	523,000	523,000	523,000	523,000
Interest	158,000	210,000	190,000	169,000
Other Objects	1,077,000	1,100,000	1,251,000	1,232,000
<i>Total Expenditures</i>	<u>16,619,000</u>	<u>15,669,000</u>	<u>14,419,000</u>	<u>14,634,000</u>
<b>Other Financing Uses</b>				
Transfers Out	41,000	98,000	0	35,000
Advances Out	0	0	34,000	0
All Other Financing Uses	7,000	14,000	0	0
<i>Total Other Financing Uses</i>	<u>48,000</u>	<u>112,000</u>	<u>34,000</u>	<u>35,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>16,667,000</u>	<u>15,781,000</u>	<u>14,453,000</u>	<u>14,669,000</u>
<i>Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses</i>	(1,343,000)	1,111,000	332,000	68,000
Cash Balance (Deficit) July 1	<u>1,034,000</u>	<u>(309,000)</u>	<u>802,000</u>	<u>1,134,000</u>
Cash Balance (Deficit) June 30	<u>(309,000)</u>	<u>802,000</u>	<u>1,134,000</u>	<u>1,202,000</u>
<b>Encumbrances and Reserves of Fund Balance:</b>				
Actual/Estimated Encumbrances June 30	6,000	15,000	35,000	19,000
Reserve for:				
Textbooks	639,000	0	0	0
Bus Purchase	40,000	40,000	40,000	40,000
Total Encumbrances and Reserves of Fund Balance	<u>685,000</u>	<u>55,000</u>	<u>75,000</u>	<u>59,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$994,000)</u>	<u>\$747,000</u>	<u>\$1,059,000</u>	<u>\$1,143,000</u>

See accompanying summary of significant forecast assumptions and accounting policies  
See accountant's report

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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**Note 1 - The School District**

The Liberty Local School District (the School District) is located in Trumbull County and includes all of Liberty Township, Ohio. The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates five instructional buildings. The School District is staffed by 68 non-certified and 92 certificated personnel who provide services to 1,242 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Liberty Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of January 28, 2014, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the School District's State fiscal stabilization fund, the Education Jobs Grant fund and the general fund supported debt are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

**Fund Accounting**

The School District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**Governmental Funds**

General Fund - The general fund is the operating fund of the School District and is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specified restricted or committed revenues should be the foundation for a special revenue fund.

Debt Service Fund - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in the debt service funds.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent Funds - Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other organizations.

**Proprietary Funds**

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

**Fiduciary Funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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**Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Trumbull County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

**Note 5 - General Operating Assumptions**

The Liberty Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**General and Tangible Personal Property Taxes**

Property taxes are applied to real property, public utility real and personal property and manufactured homes which are located within the School District. Tangible personal property used in businesses was taxed in calendar years prior to 2011. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Geauga County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

Property taxes are levied and assessed on a calendar year basis while the School District’s fiscal year runs from July through June. Property tax revenue received during calendar year 2014 (the collection year) for real and public utility property taxes represents collections of 2013 taxes (the tax year). First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “Property Tax Allocation”.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2015 scheduled property tax settlements. The potential advances have been excluded due to the School District’s inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2014.

The property tax revenues for the general fund are generated from several levies. The levies being collected for the general fund, the year approved, first and last calendar year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	First Calendar Year of Collection	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	n/a	\$5.70
Continuing Operating	1976	1977	n/a	21.00
Continuing Operating	1999	2000	n/a	5.50
Emergency (\$839,831)	2009	2010	2014	3.65
Emergency (\$1,776,316)	2010	2011	2015	7.75
Emergency (\$740,680)	2011	2012	2016	3.25
Total Tax Rate				\$46.85

The School District also has levies for bonded debt and permanent improvements totaling \$4.95 per \$1,000 of assessed valuation. The School District’s total rate is \$51.80 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy). State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is \$38.96 per \$1,000 of assessed valuation for collection year 2014, and the effective commercial and industrial real property tax rate is \$37.20 per \$1,000 of assessed valuation for collection year 2014.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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Public utility personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Tangible personal property used in businesses was taxed in calendar years prior to 2011. No tangible personal property taxes have been levied or collected after calendar year 2010. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The School District anticipates an increase of \$164,000 from fiscal year 2013 to fiscal year 2014 as a result of new construction, based upon information provided by the Trumbull County Auditor and a review of historical and current fiscal year tax settlements at the School District.

**Unrestricted Grants-in-Aid**

In fiscal year 2011, Ohio school districts received their funding under the Ohio Evidence-Based Model (OEBM) that was established in Chapter 3306 of the Ohio Revised Code and linked educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporated real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount was the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors were multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation were student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 22 mills for fiscal year 2011, 21 mills for 2012 and 2013, and 20 mills for 2014 and thereafter.

The State Department of Education, Division of School Finance calculated the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount were phased in over a five year period. In addition, school districts were guaranteed 98 percent for 2011 of the total amount received from the 2009 fiscal year's State Foundation aid.

In fiscal year 2011, approximately nine percent of the adequacy funding was provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (Restricted Federal Grants-in-Aid) for the Liberty Local School District.

Beginning in fiscal year 2012, the administration of Governor John Kasich proposed to move away from the Ohio Evidence Based Model to a new funding method. However, since a new funding mechanism was not formulated at that time, the administration decided to fund school districts in fiscal years 2012 and 2013 based on a transitional approach until a new formula could be devised. This transitional approach was referred to as the Bridge formula. The Bridge formula divides the fiscal year 2011 OEBM funding by a calculated ADM to determine the per pupil funding. The per pupil funding was then multiplied by the fiscal year 2012 and 2013 ADM. The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 21 mills of property taxes for fiscal years 2012 and 2013. In addition to this adjustment, each school district's fiscal year 2012 and 2013 funding was further adjusted so that the district received at least the total funding it received in fiscal year 2011 after subtracting the state fiscal stabilization funds from total funding, as well as to provide financial incentives for high performing districts.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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In fiscal year 2014, the State General Assembly adopted a new funding method to replace the Bridge Formula. The new foundation formula includes a base amount of funding per pupil, known as the Opportunity Grant, and also provides additional funding for a number of different services designed to serve the needs of various populations of students. The Opportunity Grant is calculated using a per pupil amount times the Average Daily Membership (ADM). For fiscal year 2014, the ADM count continues to use the current fiscal year count taken during the first full week of October. This amount is then multiplied by the State Share Index, which factors in the property wealth and the income of residents of the school district. These calculations are a multi-step process and are reflected on the School Finance Payment Report (SFPR). School districts are guaranteed to the amount received for fiscal year 2013 (including transportation aid and funding for career technical education) and no school district will receive an increase greater than 6.25% for fiscal year 2014. Based on the most current foundation settlement, the Liberty Local School District estimates \$4,662,000 in foundation funding.

Beginning in fiscal year 2013, the School District began receiving additional unrestricted grants-in-aid revenue due to casino revenue. The first three casinos opened in Ohio in calendar year 2012, with one more casino opening in 2013. Of the casino revenue collected by the State, 34% is distributed to school districts, based on student population. The School District anticipates casino revenue of \$64,000, for a total unrestricted grants-in-aid amount of \$4,726,000.

**Restricted Grants-in-Aid**

In past fiscal years, restricted grants-in-aid consisted of career technologies, bus purchase, medicaid and catastrophic aid special education monies. Catastrophic aid is a supplemental payment to the School District for special education students in categories two through five whose educational and related expenses exceed \$27,375 and for special education students in category six whose educational and related expenses exceed \$32,850. Medicaid is a supplemental payment to the School District for services provided to students who qualify for the program. Beginning in fiscal year 2014, the School District will receive economic disadvantaged funding monies. Economic disadvantaged funding is provided to address poverty and its effects on education outcomes. Its calculation is based on a per-pupil amount of \$269 equalized by the poverty index of the school district. For fiscal year 2014, the School District anticipates \$4,000 in restricted grants-in-aid monies for career technologies, \$286,000 for economic disadvantaged funding.

**Restricted Federal Grants-in-Aid**

In fiscal year 2011, restricted federal grants-in-aid consisted of State Fiscal Stabilization Funds and the Education Jobs grant monies. In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. These funds have limited restrictions on their use. Liberty Local School District received \$457,000 for fiscal year 2011, which was used for payment of teachers salaries. SFSF has not been reauthorized by the Federal government.

In 2010, Congress passed, and the President has signed, legislation that provides \$10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant was to be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. These funds had limited restrictions on their use. The School District chose to use these funds in

**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2014

fiscal year 2011 and fiscal year 2012 for salaries and benefits for teachers. There are no restricted Federal grants-in-aid monies forecast for fiscal year 2014.

**Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2014, the School District anticipates receiving \$157,000 of reimbursement for the tangible personal property tax phase-out. This is consistent with the amount received in fiscal year 2013.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecasted Fiscal Year 2014	Variance
Homestead and Rollback	\$1,122,000	\$1,130,000	\$1,140,000	\$1,116,000	(\$24,000)
Tangible Personal Property					
Loss Reimbursement	577,000	283,000	157,000	157,000	0
Totals	<u>\$1,699,000</u>	<u>\$1,413,000</u>	<u>\$1,297,000</u>	<u>\$1,273,000</u>	<u>(\$24,000)</u>

**All Other Revenues**

All other revenues include open enrollment, interest on investments, classroom fees, rental, the LEAD and LEARN Academies settlement and other receipts.

The decrease in open enrollment tuition revenue is due to the decrease in the number of students from other school districts attending the School District.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. The School District anticipates interest revenue to decrease in fiscal year 2014 due to declining interest rates.

Classroom fees are forecasted to be consistent with the prior fiscal year. The academy settlement was revenue owed to the School District from the closed LEAD and Learn Academies. No additional revenues are anticipated.



**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2014

During fiscal year 2013 the School District received rental income from the Trumbull County Education Service Center for use of classrooms. This is anticipated to reoccur in fiscal year 2014.

Other revenues consist of services provided to other entities such as charter schools, a Federal subsidy, and refund of prior year expenditures. During fiscal year 2012, the School District had a large audit adjustment that was posted as a refund of prior year expenditures. This is not expected to re-occur in the forecast period. In fiscal year 2012, the School District received its first reimbursement for the House Bill 264 Federal subsidy. The House Bill 264 Federal subsidy is revenue received by the School District as reimbursement of the payment of interest the School District paid on the House Bill 264 energy conservation loan. This is anticipated to continue in the forecast period.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecast Fiscal Year 2014	Variance
Open Enrollment	\$611,000	\$743,000	\$785,000	\$724,000	(\$61,000)
Interest on Investments	17,000	9,000	4,000	3,000	(1,000)
Classroom Fees	7,000	15,000	13,000	13,000	0
Academy Settlement	0	250,000	0	0	0
Rental	0	0	62,000	62,000	0
Other Receipts	171,000	406,000	407,000	320,000	(87,000)
<b>Totals</b>	<b>\$806,000</b>	<b>\$1,423,000</b>	<b>\$1,271,000</b>	<b>\$1,122,000</b>	<b>(\$149,000)</b>

**Other Financing Sources**

Solvency Assistance Advance – During fiscal year 2012, the School District received a Solvency Assistance Fund Advance in the amount of \$1,921,000 from the State. The State solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-93-03 of the Ohio Administrative Code. The advance will be repaid over two years from State foundation revenues. The repayment for the advance began in fiscal year 2013.

Advances In – During fiscal year 2014, the School District anticipates receiving \$34,000 in advances in from the title I special revenue fund. This is a repayment for an advance made in fiscal year 2013.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Staffing levels for the last three fiscal years and the forecast period are displayed in the following chart. The amounts represent full time equivalents.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

	2011	2012	2013	2014
General Fund:				
Certified	86.0	95.0	83.0	79.5
Classified	48.0	46.0	52.0	49.0
Total General Fund	134.0	141.0	135.0	128.5
Other Funds:				
Certified	11.0	10.0	13.0	12.5
Classified	22.0	22.0	16.0	19.0
Total Other Funds	33.0	32.0	29.0	31.5
Totals	167.0	173.0	164.0	160.0

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives for existing staff. The contract covers the period September 1, 2013 through August 31, 2015 and allows for step increases ranging from 2.5 to 5.0 percent. The decrease in certified salaries is due to a net reduction of 3.5 certified positions that were paid from the general fund. The net reduction in certified positions consists of the elimination of four general fund positions less a half position now being paid out of general fund that had previously been paid out of other funds. The decrease in certified salaries is partially offset by the above mentioned step increases.

Classified salaries are based on a negotiated contract which includes step increases. The contract covers the period September 1, 2013 through August 31, 2015 and allows for annual step increases as well as a shift differential for second shift employees. Classified salaries are forecasted to decrease due to a net reduction of 3 classified positions that were paid from the general fund. The net reduction in classified positions consists of the elimination of two general fund positions plus one additional position now being paid out of other funds that had previously been paid out of general fund. The decrease in classified salaries is partially offset by the above mentioned step increases.

Substitute salaries are expected to increase in fiscal year 2014 by \$29,000. This increase is due to a greater number of certified long-term substitutes in fiscal year 2014 as well as an increase in classified substitutes to cover the reduction of one custodial position.

Supplementary contracts are expected to decrease by \$30,000 during fiscal year 2014 due to the elimination of various supplemental positions as cost saving measures.

Upon retirement, the School District offers its certified and classified employees severance pay of 25 percent of their unused sick leave paid no later than six months after the last date of employment. Severance pay for the current fiscal year includes an employee who retired at the end of fiscal year 2013 and is being paid during fiscal year 2014 as well as two certified employees that are expected to retire prior to the end of fiscal year 2014. Severance costs are anticipated to decrease due to less employees receiving a severance payment.

Vacation opt out includes salaries paid to employees who choose to get paid for unused vacation days instead of taking the days off. Vacation opt out is forecasted to decrease due to fewer number of unused vacation days to be paid out in fiscal year 2014.

Other salaries and wages include student workers and board compensation for fiscal year 2011 and only board compensation for fiscal years 2012 through 2014.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

Presented below is a comparison of the past three fiscal years and the forecast period.

	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecast Fiscal Year 2014	Variance
Certified Salaries	\$4,969,000	\$4,791,000	\$4,505,000	\$4,339,000	(\$166,000)
Classified Salaries	1,502,000	1,400,000	1,267,000	1,136,000	(131,000)
Substitute Salaries	403,000	299,000	216,000	245,000	29,000
Supplemental Contracts	244,000	206,000	239,000	209,000	(30,000)
Severance Pay	128,000	213,000	201,000	69,000	(132,000)
Vacation Opt Out	38,000	35,000	33,000	22,000	(11,000)
Other Salaries and Wages	17,000	5,000	5,000	5,000	0
<b>Totals</b>	<b>\$7,301,000</b>	<b>\$6,949,000</b>	<b>\$6,466,000</b>	<b>\$6,025,000</b>	<b>(\$441,000)</b>

**Employees' Retirement/Insurance Benefits**

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers' compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments to both retirement systems are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimated and actual expenditures are prorated over the next calendar year. The School District pays the employee retirement contributions for three of its classified staff.

During fiscal year 2014, STRS is forecast to increase due to other funds being overcharged in fiscal year 2013. In the first few months of fiscal year 2014, the general fund was charged to reimburse the grant funds from the prior fiscal year.

SERS is forecasted to increase in fiscal year 2014 due to a higher, more conservative estimate for salaries provided to SERS by the School District.

In years past, employer contribution to SERS had been paid six months in arrears by Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. Liberty Local School District has chosen option two and has a total arrearage liability of \$150,000, with annual payments of \$25,000.

Through December 2013, the School District provided hospitalization/prescription drug, dental and vision benefits for its employees and their covered dependents through a self-insured program. Monthly charges per person for participation in the self insurance program were recommended by the third party administrator and approved by the Board of Education. Separate rates were approved for single and family coverage. As of December 31, 2013, the School District had a reserve balance of \$599,000 in its self-insurance fund. The School District intends to use up the balance in the self-insurance fund to pay off any remaining claims as well as future monthly insurance premiums.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

Beginning January 1, 2014, the School District's hospitalization/prescription drug, dental and vision costs are based on monthly premiums set by the Ohio School Benefits Cooperative. Health care premiums are set for a twelve month period from April to March. The monthly payments for health care benefits are as follows:

<u>Coverage:</u>	<u>Effective January 1, 2014</u>
Family	\$1,503.83
Single	649.92

Employees of the School District who work six hours or more daily contribute 10 percent of the premium for healthcare. Employees who work less than six hours pay a pro-rated share of the premium based on a six hour day. Health care costs for fiscal year 2014 are forecast to increase due to the prior year being unusually low as a result of the School District using up a significant portion of the self-insurance fund's large reserve balance to pay claims in fiscal year 2013.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior fiscal years. The premium for calendar year 2013, due in May 2014, decreased from \$1.11 per hundred dollars of payroll to \$0.87 per hundred dollars of payroll. The estimated premium for calendar year 2013, due in May 2014, is expected to decrease by \$18,000 due to a reduction in the premium rate as well as to a decrease in salaries.

The unemployment benefits are forecast to decrease from the prior fiscal year due to fewer employees filing unemployment claims in fiscal year 2014.

The School District offers an opt-out incentive to employees who choose not to participate in the School District's insurance plan.

Presented below is a comparison of the past three fiscal years and the forecast period:

	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecast Fiscal Year 2014	Variance
Employer's Retirement	\$995,000	\$1,082,000	\$954,000	\$981,000	\$27,000
Medical, Dental, Vision and Life	2,153,000	2,542,000	731,000	1,305,000	574,000
Workers' Compensation	105,000	82,000	73,000	55,000	(18,000)
Medicare	94,000	94,000	87,000	86,000	(1,000)
Unemployment	13,000	0	8,000	7,000	(1,000)
Health Care Opt Out	16,000	11,000	8,000	8,000	0
<b>Totals</b>	<b>\$3,376,000</b>	<b>\$3,811,000</b>	<b>\$1,861,000</b>	<b>\$2,442,000</b>	<b>\$581,000</b>

**Liberty Local School District**  
**Trumbull County**  
**Summary of Significant Assumptions and Accounting Policies**  
**For the Fiscal Year Ending June 30, 2014**

**Purchased Services**

Presented below are the purchased services expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecast Fiscal Year 2014	Variance
Professional and Technical Services	\$297,000	\$344,000	\$357,000	\$359,000	\$2,000
Property Services	187,000	175,000	136,000	159,000	23,000
Travel and Meeting Expenses	25,000	29,000	23,000	25,000	2,000
Communication Cost	43,000	28,000	30,000	14,000	(16,000)
Utility Services	360,000	352,000	357,000	368,000	11,000
Printing Services	1,000	1,000	1,000	1,000	0
Tuition Payments	2,997,000	1,718,000	1,803,000	1,894,000	91,000
Pupil Transportation	1,000	15,000	9,000	8,000	(1,000)
Other Purchased Services	0	5,000	3,000	5,000	2,000
Totals	<u>\$3,911,000</u>	<u>\$2,667,000</u>	<u>\$2,719,000</u>	<u>\$2,833,000</u>	<u>\$114,000</u>

Purchased services in fiscal year 2014 are forecasted to increase mainly due to an increase in tuition payments resulting from more students attending other school districts and community schools. Property services are forecasted to increase due to the School District anticipating necessary repairs related to the aging buildings. Communication costs are forecasted to decrease due to savings resulting from internet services being purchased through NEOMIN beginning in fiscal year 2014. Utility services are forecasted to increase due to an increase in electricity usage when compared to the prior fiscal year as well as expected increases in natural gas costs due to rising rates.

**Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2011	Actual Fiscal Year 2012	Actual Fiscal Year 2013	Forecast Fiscal Year 2014	Variance
General Supplies, Library Books, Textbooks, and Periodicals	\$62,000	\$92,000	\$60,000	\$71,000	\$11,000
Operations, Maintenance and Repair	86,000	41,000	51,000	54,000	3,000
Transportation	113,000	120,000	126,000	131,000	5,000
Totals	<u>\$261,000</u>	<u>\$253,000</u>	<u>\$237,000</u>	<u>\$256,000</u>	<u>\$19,000</u>

Supplies and materials are forecasted to increase in fiscal year 2014 due to supply needs resulting from low prior year inventory reserves.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

**Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. Capital outlay expenditures for fiscal year 2014 are mainly for CPR medical kits and technology equipment for instructional use.

**Debt**

The outstanding balances and fiscal year 2014 principal payments for general fund supported debt consists of the following:

Type	Maturity Date	Balance at 6/30/2013	Fiscal year 2014	
			Principal Payment	Interest Payment
State Solvency Assistance Loan	June 30, 2014	\$961,000	\$961,000	\$0
House Bill 264 Energy Conservation Loan	December 1, 2025	2,017,000	155,000	127,000
2009 Tax Anticipation Notes	December 1, 2014	335,000	168,000	12,000
2010 Tax Anticipation Notes	December 1, 2015	1,066,000	355,000	30,000
Total		<u>\$4,379,000</u>	<u>\$1,639,000</u>	<u>\$169,000</u>

In fiscal year 2012, the School District received \$1,921,000 in a solvency assistance advance. The advance will be repaid with State foundation monies in fiscal years 2013 and 2014. The amount to be paid in fiscal year 2014 is \$961,000.

In fiscal year 2011, the School District received \$2,327,000 in proceeds for the House Bill 264 energy conservation loan which were placed into the building capital projects fund. The work on energy conservation was completed in fiscal year 2012. The School District is setting aside the mandatory sinking fund requirement for the House Bill 264 energy conservation loan. The payment is not actually being made to a third party. In fiscal year 2012, the School District posted property tax revenue to be used to pay the energy conservation loan to the general fund and then transferred the amount of the sinking fund payment out of the general fund into the bond retirement fund. In fiscal years 2013 and 2014, the School District booked the property tax revenue directly to the bond retirement fund. The sinking fund payment for fiscal year 2014 will be \$155,000. The payments are kept in a separate bank account the School District still has access to.

In fiscal years 2009 and 2010, the School District issued tax anticipation notes in the amounts of \$839,000 and \$1,776,000, respectively. The fiscal year 2014 principal payments for the tax anticipation notes are \$168,000 and \$355,000, respectively, and will be paid with property tax revenues from emergency levies approved in 2009 and 2010.

**Other Objects**

Other objects expenditures consist of dues and fees, insurance and awards. Other objects expenditures are forecasted in the amount of \$1,232,000 for fiscal year 2014. This \$19,000 decrease is due to a decrease in the fees associated with the Trumbull County Educational Service Center for shared services.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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**Other Financing Uses**

Transfers Out – The general fund is anticipating transfers out in fiscal year 2014 in the amount of \$35,000 to the athletic special revenue fund to provide funding for athletic programs. The athletic special revenue fund was subsidized by the general fund during fiscal year 2011. The employee workers compensation trust fund was subsidized by the general fund during fiscal year 2012. No transfers were made from the general fund during fiscal year 2013.

Advances Out – In fiscal year 2013, the general fund advanced \$34,000 to the title I special revenue fund to provide temporary funding due to the timing of grants. The general fund is not anticipating advances out in fiscal year 2014. The balances in the special revenue grant funds are expected to be positive at the end of fiscal year 2014 and will not need temporary funding to avoid deficit balances.

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance. Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2013 were \$35,000. Encumbrances were higher than usual in fiscal year 2013 due to outstanding purchase orders for technology equipment. Fiscal year 2014 encumbrances are forecasted to be \$19,000. The School District is making an effort to have minimal encumbrances at fiscal year end.

**Note 9 - Reservations of Fund Balance**

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues 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.

**Textbooks and Instructional Materials Set-Aside**

In prior fiscal years, the School District was required to set aside a portion of current year revenue for textbooks and other instructional materials. Effective July 1, 2011, the textbook set aside no longer exists and has been deleted from law; therefore no reserve amount is forecasted for textbooks and instructional materials.

**Capital and Maintenance Set-Aside**

The set aside amount for fiscal year 2014 is forecasted to be \$221,000. The School District anticipates \$152,000 in offsets and \$84,000 in qualifying expenditures during the current fiscal year which will reduce the set aside amount below zero. Therefore, no reserve amount is forecasted.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

**Bus Purchase Allowance**

At June 30, 2013, the School District had \$40,000 in unspent bus purchase monies. The School District anticipates no bus purchases during fiscal year 2014. As a result, a \$40,000 reserve is forecast for bus purchase allowance as of June 30, 2014.

**Note 10 - Levies**

In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results of past levy attempts are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
May 2003	Emergency Operating (Renewed)	\$840,000	5 Years	Passed
March 2004	Permanent Improvement (Renewed)	0.9 mills	5 Years	Passed
March 2004	Emergency Operating	1,792,000	5 Years	Failed
August 2004	Emergency Operating	1,773,000	5 Years	Failed
November 2004	Emergency Operating	1,773,000	5 Years	Failed
May 2005	Emergency Operating	1,776,000	5 Years	Passed
May 2006	Emergency Operating (Renewed)	741,000	5 Years	Passed
March 2008	Emergency Operating (Renewed)	840,000	5 Years	Passed
November 2008	Permanent Improvement (Renewed)	0.9 mills	5 Years	Passed
May 2009	Emergency Operating	2,291,000	10 years	Failed
November 2009	Emergency Operating	2,291,000	10 years	Failed
May 2010	Emergency Operating (Renewed)	1,776,000	5 Years	Passed
November 2010	Emergency Operating (Renewed)	741,000	5 Years	Passed

**Note 11 - Pending Litigation**

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

**Note 12 – Liberty Benefits Self-Insurance Fund**

Through December 2013, the School District provided hospitalization/prescription drug, dental and vision benefits for its employees and their covered dependents through a self-insured program. Anthem Blue Cross/Blue Shield, a third party administrator, processes the claims. All funds make monthly payments to the self-insurance fund based on the number of employees and the type of coverage provided to each employee. Monthly charges per person for single and family participation in the program are recommended by the third party administrator and approved by the Board of Education. The fund purchases annual stop loss coverage for claims in excess of \$50,000 per person and \$1,000,000 for the School District as a whole.



**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2014

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As of December 31, 2013, the School District had a reserve balance of \$599,000 in its self-insurance fund. The School District intends to use up the balance in the self-insurance fund to pay off any remaining claims as well as future monthly insurance premiums. Beginning January 1, 2014, the School District is no longer self-insured and became fully funded through Ohio School Benefits Cooperative.

**Note 13 - Financial Planning and Supervision Commission**

On July 11, 2011, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Trumbull County Auditor. The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must in accordance with the plan.

**Note 14 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumes the continued operation of the School District with slight decreases in revenues. The plan also assumes increases in salaries and benefits for fiscal years 2014 through 2018. The operating balance decreases to \$792,702 for fiscal year 2018.

The information presented in this note is less reliable than the information presented in the financial forecast, and accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

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# Dave Yost • Auditor of State

**LIBERTY LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2014**