



Dave Yost • Auditor of State

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, 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.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As described in Note 22 to the financial statements, the District has been declared to be in fiscal emergency and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 3316.03(B)(2) of the Ohio Revised Code. This condition raises substantial doubt about the District's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 22. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

Columbus, Ohio

June 24, 2013

Liberty Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

As management of the Liberty Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- The Auditor of State placed the School District into a state of "fiscal emergency" based on an anticipated deficit for fiscal year-end 2012. A Solvency Assistance Fund Advance was then available to the School District.
- Program expenses decreased due to the Financial Planning and Supervision Commission, which was put in place in fiscal year 2012, insisting the School District make numerous reductions in expenses in an effort to attempt to balance the budget.
- The School District's enrollment decreased from fiscal year 2011 to fiscal year 2012. As a result of this decrease, there was a decrease to School Foundation revenues from the State of Ohio, which was offset by a few variables. During fiscal year 2012, there were increases in the homestead and rollback reimbursements. The School District also received the first year of IRS reimbursements in relation to the Energy Conservation Improvement Bonds.
- The general fund had a decrease in fund balance due mainly to decreases in intergovernmental and property tax revenue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements are comprised of three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to provide the reader with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statement distinguishes functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those that are primarily

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supported through user charges (*business-type activities*). The School District has no business-type activities. The governmental activities of the School District include instruction, support services, extracurricular activities, operation of non-instructional services and interest and fiscal charges.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like the State and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. These fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general and bond retirement funds. All of the funds of the School District can be divided into two categories: governmental and fiduciary.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, 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 School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to financial educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The basic fund financial statements can be found on pages 13-17 of this report.

Proprietary Funds The School District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for unanticipated run-off claims.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary Fund A fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the School District's own programs. These funds use the accrual basis of accounting.

The basic fiduciary fund financial statement can be found on page 21 of this report.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-48 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2012 compared to 2011.

Liberty Local School District
Management's Discussion and Analysis
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Table 1
 Net Position
 Governmental Activities

	2012	2011	Change
Assets			
Current and Other Assets	\$14,516,149	\$14,369,545	\$146,604
Capital Assets, Net	10,003,655	10,390,292	(386,637)
<i>Total Assets</i>	<u>24,519,804</u>	<u>24,759,837</u>	<u>(240,033)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	171,249	191,595	(20,346)
Liabilities			
Current Liabilities	5,962,916	5,495,056	(467,860)
Long-Term Liabilities			
Due Within One Year	794,342	937,055	142,713
Due In More Than One Year	9,898,440	10,085,838	187,398
<i>Total Liabilities</i>	<u>16,655,698</u>	<u>16,517,949</u>	<u>(137,749)</u>
Deferred Inflows of Resources			
Property Taxes	8,687,925	8,945,439	257,514
Net Position			
Net Investment in Capital Assets	3,782,538	3,952,322	(169,784)
Restricted for:			
Capital Projects	237,285	1,020,520	(783,235)
Debt Service	816,362	0	816,362
Set-Aside	46,526	0	46,526
Honors Programs			
Nonexpendable	24,415	4,269	20,146
Other Purposes	491,713	1,066,945	(575,232)
Unrestricted (Deficit)	(6,051,409)	(6,556,012)	504,603
<i>Total Net Position</i>	<u><u>(\$652,570)</u></u>	<u><u>(\$511,956)</u></u>	<u><u>(\$140,614)</u></u>

Current assets increased mainly due to an increase in cash and cash equivalents which was offset by decreases in property taxes and intergovernmental receivable. The School District had more cash available due to the excess carryover of a Solvency Assistance loan which was received during fiscal year 2012. The decrease in property taxes receivable can be attributed to the continued decrease in assessed values within the School District over the last few years. The decrease in intergovernmental receivable can be attributed to the conclusion of federal award programs that were received in prior fiscal years. The decrease in capital assets was due to an additional year of depreciation outpacing current year additions.

The School District had an increase in total liabilities due to the request of the solvency assistance loan advance. The increase was offset by decreases in accounts payable. The School District had fewer outstanding obligations to be carried forward to the following fiscal year than in the past.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2012 and 2011.

Liberty Local School District
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Table 2
Change in Net Assets
Governmental Activities

	2012	2011	Change
Program Revenues			
Charges for Services and Sales	\$1,094,543	\$933,955	\$160,588
Operating Grants, Interest and Contributions	1,474,793	2,368,780	(893,987)
Capital Grants	18,971	0	18,971
<i>Total Program Revenues</i>	<u>2,588,307</u>	<u>3,302,735</u>	<u>(714,428)</u>
General Revenues			
Property Taxes	8,665,411	8,767,388	(101,977)
Grants and Entitlements	6,608,474	6,264,702	343,772
Investment Earnings	8,754	17,553	(8,799)
Miscellaneous	554,841	185,839	369,002
<i>Total General Revenues</i>	<u>15,837,480</u>	<u>15,235,482</u>	<u>601,998</u>
<i>Total Revenues</i>	<u>18,425,787</u>	<u>18,538,217</u>	<u>(112,430)</u>
Program Expenses			
Instruction:			
Regular	9,042,978	10,342,092	1,299,114
Special	1,685,473	1,151,418	(534,055)
Vocational	0	45,178	45,178
Support Services:			
Pupils	454,990	420,914	(34,076)
Instructional Staff	477,658	507,474	29,816
Board of Education	17,082	14,608	(2,474)
Administration	1,590,814	1,961,098	370,284
Fiscal	431,821	856,078	424,257
Business	4,077	4,749	672
Operation and Maintenance of Plant	2,160,285	2,810,801	650,516
Pupil Transportation	784,005	815,042	31,037
Central	40,012	40,810	798
Operation of Non-Instructional Services	601	1,321	720
Operation of Food Service	847,495	656,513	(190,982)
Extracurricular Activities	365,239	497,011	131,772
Interest and Fiscal Charges	663,871	570,221	(93,650)
<i>Total Program Expenses</i>	<u>18,566,401</u>	<u>20,695,328</u>	<u>2,128,927</u>
<i>Change in Net Position</i>	(140,614)	(2,157,111)	2,016,497
Net Position (Deficit) Beginning of Year	<u>(511,956)</u>	<u>1,645,155</u>	<u>(2,157,111)</u>
Net Position (Deficit) End of Year	<u><u>(\$652,570)</u></u>	<u><u>(\$511,956)</u></u>	<u><u>(\$140,614)</u></u>

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The School District relies heavily upon property taxes and the State School Foundation Program to support its operations. The School District also actively solicits and receives additional grant and entitlement funds to help offset operating costs. The decrease in operating grants can be attributed to the School District receiving State Fiscal Stabilization funds and the Education Jobs grant monies during fiscal year 2011. These monies were not available in fiscal year 2012.

The decrease in program expenses can be attributed to a decrease in tuition payments in fiscal year 2012 due to the closing of the LEAD and LEARN Academies. Another main contributing factor was the placement of the School District into fiscal emergency. The result is the State Commission overseeing finances and in turn, requesting that the School District reduce expenses.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2012 compared to 2011.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2012		2011	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$9,042,978	\$8,029,019	\$10,342,092	\$9,343,529
Special	1,685,473	1,225,617	1,151,418	213,667
Vocational	0	0	45,178	36,609
Support Services:				
Pupils	454,990	449,520	420,914	420,132
Instructional Staff	477,658	385,817	507,474	273,515
Board of Education	17,082	17,082	14,608	14,608
Administration	1,590,814	1,463,893	1,961,098	1,912,728
Fiscal	431,821	431,821	856,078	851,860
Business	4,077	3,303	4,749	4,749
Operation and Maintenance of Plant	2,160,285	2,141,314	2,810,801	2,590,018
Pupil Transportation	784,005	705,531	815,042	815,042
Central	40,012	33,200	40,810	33,985
Operation of Non-Instructional Services	601	601	1,321	(22,792)
Operation of Food Service	847,495	162,726	656,513	(61,959)
Extracurricular Activities	365,239	264,779	497,011	396,681
Interest and Fiscal Charges	663,871	663,871	570,221	570,221
Total	\$18,566,401	\$15,978,094	\$20,695,328	\$17,392,593

The dependence upon general revenues for governmental activities is apparent from Table 3. The majority of instructional activities are supported through taxes and other general revenues.

Liberty Local School District
Management's Discussion and Analysis
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Financial Analysis of the Government's Funds

Governmental Funds Information about the School District's major funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,284,607 and expenditures of \$19,321,438. The general fund had a decrease in fund balance due mainly to a decrease in property tax collections and intergovernmental revenue. The decrease in property tax revenue is attributed to an increase in outstanding delinquent property taxes outstanding at fiscal year-end as well as a decrease in assessed values. The decrease in intergovernmental revenue relates to the decrease in School Foundation revenues from the State of Ohio as well as the State discontinuing the State Fiscal Stabilization funds and the Education Jobs monies. General fund expenditures decreased as well but not enough to eliminate deficit spending. The bond retirement fund had an increase in fund balance due to an increase in property tax revenue. Other Governmental Funds had a decrease in fund balance due to a decrease of grant monies due to the conclusion of federal award programs.

General Fund Budgeting Highlights

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2012, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was higher than actual revenues which can be attributed to less property taxes than expected. The final budget appropriations were lower than the original budget appropriations of the general fund. The change was attributed to decreases in expenditures for pupils support services, pupil transportation, operation and maintenance of plant and extracurricular activities. Overall, the change in the general fund balance was positive. This can be attributed to the receipt of the Solvency Assistance Advance.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2012 values compared to fiscal 2011.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2012	2011
Land	\$349,160	\$349,160
Land Improvements	254,825	304,955
Buildings and Improvements	8,740,749	9,082,781
Furniture and Fixtures	611,345	584,611
Vehicles	47,576	68,785
Total Capital Assets	\$10,003,655	\$10,390,292

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The decrease in capital assets was due to an additional year of depreciation offset by a small amount of current year additions for copiers. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

Debt

Table 5 below summarizes the School District's long-term outstanding obligations.

Table 5
Outstanding Long-term Obligations at June 30
Governmental Activities

	2012	2011
1997 General Obligation Bonds	\$595,277	\$1,138,752
2006 Refunding Bonds	6,551,681	6,562,107
Energy Conservation Improvement Bonds	2,327,350	2,327,350
Capital Leases	120,074	0
Total	\$9,594,382	\$10,028,209

The 1997 general obligation bonds were issued to finance the construction of a new high school. The 2006 refunding bonds were issued to advance refund the callable portion of the 1997 general obligation bonds to take advantage of lower interest rates. The energy conservation improvement qualified school construction bonds were issued to provide for energy improvements to various School District buildings. The bonds will be repaid out of the general obligation bond retirement fund.

The School District's overall legal debt margin was \$12,536,916 with an unvoted debt margin of \$224,375. For more information about the School District's long-term obligations, see Note 12 to the basic financial statements for additional information.

School District Outlook

On July 11, 2011, the School District was declared by the Auditor of State to be in a state of "fiscal emergency" based on anticipated deficits at fiscal year end 2011 and 2012. A five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. With the assistance of the Financial Planning and Supervision Commission, the School District was able to put in place an initial recovery plan on January 30, 2012. The School District is in the process of revising their recovery plan. To generate additional funds the School District borrowed from the State Solvency Fund during fiscal year 2012 and cut expenses where available. The State Solvency Assistance Advance will be repaid from the general fund over two years with school foundation revenue.

The financial future of the School District will continue to face challenges. These challenges stem from issues that are at both the local and State levels. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with unconstitutionality of the State's educational funding system.

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Another challenge facing the School District is the completion of the campus atmosphere, starting with the building of the new high school. Currently, all three School District buildings rest on the same plot of land. In the future, athletic fields and transportation facilities need to be relocated on to the campus to complete the project. The School District also faces the challenge of upgrading current facilities such as middle school science labs and band rooms, general building repairs and storage space. The current permanent improvement levy does not provide enough funding to meet these needs. The Board declared "urgent necessity" for demolition of the old high school with a portion to remain as storage space for the School District.

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the School District's Financial Management

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

Liberty Local School District

Statement of Net Position

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,642,662
Cash and Cash Equivalents with Fiscal Agents	155,157
Accounts Receivable	8,074
Intergovernmental Receivable	323,067
Inventory Held for Resale	5,921
Materials and Supplies Inventory	18,209
Property Taxes Receivable	10,363,059
Nondepreciable Capital Assets	349,160
Depreciable Capital Assets, Net	<u>9,654,495</u>
<i>Total Assets</i>	<u>24,519,804</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	<u>171,249</u>
Liabilities	
Accounts Payable	161,548
Accrued Wages and Benefits	1,169,334
Intergovernmental Payable	370,237
Matured Compensated Absences Payable	71,629
Accrued Interest Payable	34,468
Notes Payable	3,845,200
Claims Payable	310,500
Long-Term Liabilities:	
Due Within One Year	794,342
Due In More Than One Year	<u>9,898,440</u>
<i>Total Liabilities</i>	<u>16,655,698</u>
Deferred Inflows of Resources	
Property Taxes	<u>8,687,925</u>
Net Position	
Net Investment in Capital Assets	3,782,538
Restricted for:	
Capital Projects	237,285
Debt Service	816,362
Set Asides	46,526
Honors Programs	
Nonexpendable	24,415
Other Purposes	491,713
Unrestricted (Deficit)	<u>(6,051,409)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$652,570)</u></u>

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Capital Grants	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions		
Governmental Activities					
Instruction:					
Regular	\$9,042,978	\$663,555	\$350,404	\$0	(\$8,029,019)
Special	1,685,473	88,077	371,779	0	(1,225,617)
Support Services:					
Pupils	454,990	0	5,470	0	(449,520)
Instructional Staff	477,658	0	91,841	0	(385,817)
Board of Education	17,082	0	0	0	(17,082)
Administration	1,590,814	77,025	49,896	0	(1,463,893)
Fiscal	431,821	0	0	0	(431,821)
Business	4,077	0	774	0	(3,303)
Operation and Maintenance of Plant	2,160,285	0	0	18,971	(2,141,314)
Pupil Transportation	784,005	0	78,474	0	(705,531)
Central	40,012	0	6,812	0	(33,200)
Operation of Non-Instructional Services	601	0	0	0	(601)
Operation of Food Service	847,495	165,426	519,343	0	(162,726)
Extracurricular Activities	365,239	100,460	0	0	(264,779)
Interest and Fiscal Charges	663,871	0	0	0	(663,871)
Totals	\$18,566,401	\$1,094,543	\$1,474,793	\$18,971	(15,978,094)
General Revenues					
Property Taxes Levied for:					
					6,929,307
					1,600,076
					136,028
Grants and Entitlements not Restricted					
					6,608,474
					8,754
					554,841
					<i>Total General Revenues</i>
					15,837,480
					(140,614)
					<i>Net Position (Deficit) Beginning of Year</i>
					(511,956)
					<i>Net Position (Deficit) End of Year</i>
					(\$652,570)

See accompanying notes to the basic financial statements

Liberty Local School District

Balance Sheet

Governmental Funds

June 30, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$779,694	\$476,286	\$930,472	\$2,186,452
Cash and Cash Equivalents With Fiscal Agents	0	155,157	0	155,157
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	46,526	0	0	46,526
Accounts Receivable	7,920	0	154	8,074
Intergovernmental Receivable	42,579	61,093	219,395	323,067
Interfund Receivable	73,293	0	0	73,293
Inventory Held for Resale	0	0	5,921	5,921
Materials and Supplies Inventory	15,335	0	2,874	18,209
Property Taxes Receivable	8,517,457	1,678,288	167,314	10,363,059
<i>Total Assets</i>	<u>\$9,482,804</u>	<u>\$2,370,824</u>	<u>\$1,326,130</u>	<u>\$13,179,758</u>
Liabilities				
Accounts Payable	\$18,542	\$0	\$143,006	\$161,548
Accrued Wages and Benefits	1,000,750	0	168,584	1,169,334
Interfund Payable	0	0	73,293	73,293
Matured Compensated Absences Payable	71,629	0	0	71,629
Intergovernmental Payable	328,328	0	41,909	370,237
Accrued Interest Payable	6,081	0	0	6,081
Notes Payable	3,845,200	0	0	3,845,200
<i>Total Liabilities</i>	<u>5,270,530</u>	<u>0</u>	<u>426,792</u>	<u>5,697,322</u>
Deferred Inflows of Resources				
Property Taxes	7,020,710	1,526,075	141,140	8,687,925
Unavailable Revenue	1,509,880	149,218	58,119	1,717,217
<i>Total Deferred Inflows of Resources</i>	<u>8,530,590</u>	<u>1,675,293</u>	<u>199,259</u>	<u>10,405,142</u>
Fund Balances				
Nonspendable	15,335	0	27,289	42,624
Restricted	46,526	695,531	715,521	1,457,578
Unassigned (Deficit)	(4,380,177)	0	(42,731)	(4,422,908)
<i>Total Fund Balances (Deficit)</i>	<u>(4,318,316)</u>	<u>695,531</u>	<u>700,079</u>	<u>(2,922,706)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$9,482,804</u>	<u>\$2,370,824</u>	<u>\$1,326,130</u>	<u>\$13,179,758</u>

See accompanying notes to the basic financial statements

Liberty Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances (\$2,922,706)

*Amounts reported for governmental activities in the statement of
 net position are different because*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 10,003,655

Other long-term assets are not available to pay for current-period
 expenditures and therefore are unavailable in the funds.

Delinquent Property Taxes	1,642,178
Intergovernmental	<u>75,039</u>

Total	1,717,217
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An internal service fund is used by management to charge the cost of
 insurance to individual funds. The assets and liabilities of the internal service
 fund are included in governmental activities in the statement of activities. 1,099,184

In the statement of activities, interest is accrued on outstanding
 bonds, whereas in governmental funds, an interest
 expenditure is reported when due. (28,387)

Long-term liabilities are not due and payable in the current period
 and therefore are not reported in the funds.

General Obligation Bonds	(9,474,308)
Capital Leases	(120,074)
Compensated Absences	(1,098,400)
Deferred Charge on Refunding	<u>171,249</u>

Total	<u>(10,521,533)</u>
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Net Position of Governmental Activities (\$652,570)

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,695,500	\$1,580,147	\$132,029	\$8,407,676
Intergovernmental	6,387,216	178,679	1,701,860	8,267,755
Interest	8,754	0	18,838	27,592
Tuition and Fees	828,657	0	0	828,657
Extracurricular Activities	0	0	100,460	100,460
Contributions and Donations	0	0	3,308	3,308
Charges for Services	0	0	165,426	165,426
Miscellaneous	473,579	0	10,154	483,733
<i>Total Revenues</i>	<u>14,393,706</u>	<u>1,758,826</u>	<u>2,132,075</u>	<u>18,284,607</u>
Expenditures				
Current:				
Instruction:				
Regular	8,742,618	0	402,318	9,144,936
Special	1,162,492	0	624,743	1,787,235
Support Services:				
Pupils	458,013	0	20,239	478,252
Instructional Staff	371,845	0	153,252	525,097
Board of Education	17,082	0	0	17,082
Administration	1,434,312	0	91,271	1,525,583
Fiscal	421,066	0	0	421,066
Business	2,987	0	1,090	4,077
Operation and Maintenance of Plant	1,112,482	16,279	1,044,835	2,173,596
Pupil Transportation	638,345	0	148,772	787,117
Central	28,205	0	11,807	40,012
Operation of Non-Instructional Services	0	0	601	601
Operation of Food Service	0	0	840,823	840,823
Extracurricular Activities	252,065	0	72,136	324,201
Capital Outlay	129,583	0	0	129,583
Debt Service:				
Principal Retirement	9,509	685,000	0	694,509
Interest and Fiscal Charges	85,776	341,892	0	427,668
<i>Total Expenditures</i>	<u>14,866,380</u>	<u>1,043,171</u>	<u>3,411,887</u>	<u>19,321,438</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(472,674)</u>	<u>715,655</u>	<u>(1,279,812)</u>	<u>(1,036,831)</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	129,583	0	0	129,583
Transfers In	0	205,912	0	205,912
Transfers Out	(205,912)	0	0	(205,912)
<i>Total Other Financing Sources (Uses)</i>	<u>(76,329)</u>	<u>205,912</u>	<u>0</u>	<u>129,583</u>
<i>Net Change in Fund Balances</i>	(549,003)	921,567	(1,279,812)	(907,248)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(3,769,313)</u>	<u>(226,036)</u>	<u>1,979,891</u>	<u>(2,015,458)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$4,318,316)</u></u>	<u><u>\$695,531</u></u>	<u><u>\$700,079</u></u>	<u><u>(\$2,922,706)</u></u>

See accompanying notes to the basic financial statements

Liberty Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$907,248)

Amounts reported for governmental activities in the statement of activities are different because

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

Capital Outlay	129,583	
Depreciation	<u>(516,220)</u>	
Total		(386,637)

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

Property Taxes	257,735	
Intergovernmental	<u>(187,663)</u>	
Total		70,072

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 694,509

Other financing sources in the governmental funds, such as inception of capital lease, increase long-term liabilities in the statement of net position. (129,583)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	(84,758)	
Amortization of Accretion	(160,474)	
Amortization of Premium	29,375	
Amortization of Deferred Charge on Refunding	<u>(20,346)</u>	
Total		(236,203)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (103,716)

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statements of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities. 858,192

Change in Net Position of Governmental Activities (\$140,614)

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$6,648,681	\$6,192,451	\$6,182,451	(\$10,000)
Intergovernmental	6,857,795	6,387,216	6,387,216	0
Interest	9,399	8,318	8,754	436
Tuition and Fees	808,780	753,282	753,282	0
Miscellaneous	511,031	475,581	475,964	383
<i>Total Revenues</i>	<u>14,835,686</u>	<u>13,816,848</u>	<u>13,807,667</u>	<u>(9,181)</u>
Expenditures				
Current:				
Instruction:				
Regular	8,744,408	8,983,138	8,793,066	190,072
Special	1,053,386	1,151,921	1,151,921	0
Vocational	8,175	0	0	0
Support Services:				
Pupils	993,679	436,022	436,022	0
Instructional Staff	347,900	347,306	347,306	0
Board of Education	16,499	17,306	17,306	0
Administration	1,199,350	1,359,102	1,357,224	1,878
Fiscal	454,902	462,059	462,059	0
Business	602	2,987	2,987	0
Operation and Maintenance of Plant	1,548,906	1,143,010	1,143,010	0
Pupil Transportation	828,765	749,618	749,618	0
Central	17,391	30,086	30,086	0
Operation of Non-Instructional Services	1,000	0	0	0
Extracurricular Activities	348,383	260,195	260,195	0
<i>Total Expenditures</i>	<u>15,563,346</u>	<u>14,942,750</u>	<u>14,750,800</u>	<u>191,950</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(727,660)</u>	<u>(1,125,902)</u>	<u>(943,133)</u>	<u>182,769</u>
Other Financing Sources (Uses)				
Solvency Assistance Advance Proceeds	1,921,000	1,921,000	1,921,000	0
Transfers Out	(1,427)	(205,912)	(205,912)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,919,573</u>	<u>1,715,088</u>	<u>1,715,088</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	1,191,913	589,186	771,955	182,769
<i>Fund Balance (Deficit) Beginning of Year</i>	(1,189)	(1,189)	(1,189)	0
Prior Year Encumbrances Appropriated	6,366	6,366	6,366	0
<i>Fund Balance End of Year</i>	<u>\$1,197,090</u>	<u>\$594,363</u>	<u>\$777,132</u>	<u>\$182,769</u>

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Fund Net Position
Internal Service Fund
June 30, 2012

	<u>Self Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,409,684
Liabilities	
Claims Payable	<u>310,500</u>
Net Position	
Unrestricted	<u><u>\$1,099,184</u></u>

See accompanying notes to the basic financial statements

Liberty Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2012*

	Self Insurance
Operating Revenues	
Charges for Services	\$2,771,506
Miscellaneous	71,108
	<u>2,842,614</u>
<i>Total Operating Revenues</i>	<u>2,842,614</u>
Operating Expenses	
Purchased Services	33,000
Claims	1,951,422
	<u>1,984,422</u>
<i>Total Operating Expenses</i>	<u>1,984,422</u>
<i>Operating Income</i>	858,192
<i>Net Position Beginning of Year</i>	<u>240,992</u>
<i>Net Position End of Year</i>	<u><u>\$1,099,184</u></u>

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2012

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$2,771,506
Other Cash Receipts	71,108
Cash Payments for Goods and Services	(33,000)
Cash Payments for Claims	(2,041,622)
<i>Net Increase in Cash and Cash Equivalents</i>	767,992
<i>Cash and Cash Equivalents Beginning of Year</i>	641,692
<i>Cash and Cash Equivalents End of Year</i>	\$1,409,684
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$858,192
Adjustments:	
Decrease in Claims Payable	(90,200)
<i>Net Cash Provided by Operating Activities</i>	\$767,992

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$38,938</u>
Liabilities	
Due to Students	<u>\$38,938</u>
See accompanying notes to the basic financial statements	

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Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the School District and Reporting Entity

Liberty Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is located in Northeast Ohio, in Trumbull County, in the greater metropolitan Youngstown area.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's elementary school and comprehensive middle/high school staffed by 70 non-certified and 110 certificated personnel who provide services to 1,300 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Non-public Schools - Within the School District boundaries, there are various non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with two jointly governed organizations. These organizations are the North Eastern Ohio Management Information Network and the Trumbull County Career and Technical Center. These organizations are presented in Note 15 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major 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 except those required to be accounted for and reported in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Bond Retirement Fund The bond retirement fund accounts for and reports the accumulation of property tax revenues restricted for the payment of principal and interest and fiscal charges on general obligation debt.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

Proprietary Fund Type Proprietary funds focuses on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. 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 therefore not available to support the School District's own programs. The School District has no trust fund. 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 student activities.

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 School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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 (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows of resources, 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 become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 8). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The School District utilizes a financial institution to set aside the mandatory sinking fund payments required for the energy conservation improvement qualified school construction bonds. The balance in this account is presented as "cash and cash equivalents with fiscal agent."

Investments are reported at fair value which is based on quoted market prices. During fiscal year 2012, investments were limited to STAR Ohio.

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 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 net asset value per share which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$8,754, which includes \$5,725 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventory consists of expendable supplies and donated and purchased food held for resale.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the general fund include amounts required by State statute to be set-aside for capital improvements and the purchase of school buses. See Note 21 for additional information regarding set asides.

Capital Assets

The School District's only capital assets are general capital assets. 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 position but are not reported in the fund financial statements.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School 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.

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

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
Building and Improvements	20 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	8 years
Textbooks	10 years

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net position.

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 employer will compensate the employees for the benefits through paid time off or some other means. The School 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School 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 School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees with ten years of service at any age within the School District.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee who has accumulated unpaid leave is paid.

Accrued Liabilities and Long-term Obligations

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

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

Bond Premiums

On the government-wide financial statements, bond premiums are amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On the fund financial statements, bond premiums are reported in the year the bonds are issued.

Internal Activity

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education or a School District official delegated that authority by a resolution or by State statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for auxiliary services and extracurricular activities.

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

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 Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund. Prior to year end the Board of Education adopted appropriations which match actual expenditures plus encumbrances and requested a certificate of estimated resources to match actual revenues.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

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

Note 3 – Change in Accounting Principles

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions" and Statement No. 65, "Items Previously Reported as Assets and Liabilities."

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District's fiscal year 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2012 financial statements; however, there was no effect on beginning net position/fund balance.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Inventory	\$15,335	\$0	\$2,874	\$18,209
Honors Program	0	0	24,415	24,415
<i>Total Nonspendable</i>	15,335	0	27,289	42,624
<i>Restricted for</i>				
Food Service Operations	0	0	338,769	338,769
Scholarships	0	0	1,977	1,977
Athletics	0	0	36,113	36,113
Auxiliary Services	0	0	25,197	25,197
Early Childhood Educational Programs	0	0	78,370	78,370
Student Programs	0	0	23,469	23,469
Debt Service Payments	0	695,531	0	695,531
Capital Improvements	46,526	0	211,626	258,152
<i>Total Restricted</i>	46,526	695,531	715,521	1,457,578
<i>Unassigned (Deficit)</i>	(4,380,177)	0	(42,731)	(4,422,908)
<i>Total Fund Balances (Deficit)</i>	(\$4,318,316)	\$695,531	\$700,079	(\$2,922,706)

Note 5 – Accountability and Compliance

Accountability

Fund balances at June 30, 2012, included the following individual fund deficits:

General Fund	\$4,318,316
<i>Special Revenue Funds</i>	
Education Management Information Systems	848
Data Communication	5,784
Title VI-B	17,564
Title I	18,535

Management is currently analyzing the general fund’s operations to determine appropriate steps to alleviate the deficit.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The special revenue funds' deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

Compliance

The School District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(H):

<i>Special Revenue Funds</i>	<u>Negative Cash Balance</u>
Education Management Information Systems	\$848
Data Communication	5,784
Title VI-B	19,430
Title I	47,231

Note 6 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the special trust, public school support and retirement trust are classified to general fund for GAAP Reporting.
5. Proceeds from the State Solvency Assistance Advance are operating transactions (budget) rather than balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balance

	General
GAAP Basis	(\$549,003)
Net Adjustment for Revenue Accruals	(972,674)
State Solvency Assistance Advance Proceeds	1,921,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses:	
Special Trust	(100)
Public School Support	(1,109)
Retirement Trust	97,647
Net Adjustment for Expenditure Accruals	261,469
Encumbrances	14,725
Budget Basis	\$771,955

Note 7 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

Interim deposits are deposits of interim monies. Interim 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.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,652,268 of the School District's bank balance of \$3,902,268 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2012, the School District had STAR Ohio as the only investment with an amount of \$7,927 and a maturity of 52.5 days. The investment is in an internal investment pool.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Note 8 – Property Taxes

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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2012, was \$29,446 in the general fund, \$2,995 in the bond retirement fund and \$515 in the permanent improvement fund. The amount available as an advance at June 30, 2011, was \$123,019 in the general fund, \$12,894 in the bond retirement fund and \$2,160 in the permanent improvement fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$227,919,560	97.61%	\$219,021,410	97.61%
Public Utility Personal	5,572,080	2.39	5,354,010	2.39
Total	\$233,491,640	100.00%	\$224,375,420	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$50.90		\$51.75	

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 9 - Receivables

Receivables at June 30, 2012, consisted of taxes, accounts (rent and student fees), tuition, School Employees Retirement System reimbursement and intergovernmental grants. 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. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title I Grant	\$128,192
Energy Conservation Improvement	
Bonds - IRS Reimbursement	61,093
Title VI-B Grant	56,665
School Employees Retirement System	48,362
Public School Preschool Grant	22,980
Improving Teacher Quality Grant	5,775
Total	\$323,067

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Nondepreciable Capital Assets				
Land	\$349,160	\$0	\$0	\$349,160
Depreciable Capital Assets				
Land Improvements	1,328,044	0	0	1,328,044
Buildings and Improvements	16,578,418	0	0	16,578,418
Furniture and Fixtures	1,818,698	129,583	0	1,948,281
Vehicles	1,076,837	0	(101,576)	975,261
Textbooks	911,660	0	0	911,660
<i>Total at Historical Cost</i>	21,713,657	129,583	(101,576)	21,741,664
Less: Accumulated Depreciation				
Land Improvements	(1,023,089)	(50,130)	0	(1,073,219)
Buildings and Improvements	(7,495,637)	(342,032)	0	(7,837,669)
Furniture and Fixtures	(1,234,087)	(102,849)	0	(1,336,936)
Vehicles	(1,008,052)	(21,209)	101,576	(927,685)
Textbooks	(911,660)	0	0	(911,660)
<i>Total Accumulated Depreciation</i>	(11,672,525)	(516,220) *	101,576	(12,087,169)
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	10,041,132	(386,637)	0	9,654,495
<i>Governmental Activities Capital Assets, Net</i>	\$10,390,292	(\$386,637)	\$0	\$10,003,655

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$377,610
Support Services	
Fiscal	12,959
Operation and Maintenance of Plant	29,461
Pupil Transportation	18,687
Operation of Food Service	33,055
Extracurricular Activities	44,448
Total Depreciation Expense	\$516,220

Note 11 – Fund Obligations

The School District’s note activity, including amount outstanding and interest rate, is as follows:

	Outstanding June 30, 2011	Additions	Deletions	Outstanding June 30, 2012
2009 4.90%				
Tax Anticipation Notes	\$671,200	\$0	\$167,800	\$503,400
2010 3.40%				
Tax Anticipation Notes	1,776,000	0	355,200	1,420,800
2012 0.00%				
State Solvency Assistance Advance	0	1,921,000	0	1,921,000
Total Fund Obligations	\$2,447,200	\$1,921,000	\$523,000	\$3,845,200

During fiscal year 2012, the School District received an interest free State solvency assistance advance in the amount of \$1,921,000. The State solvency assistance advance will be paid from the general fund with school foundation revenue. A liability for the note is reflected in the general fund which received the proceeds. In fiscal year 2013 and 2014, the School District will pay \$960,500 to retire the solvency assistance advance.

On February 12, 2009, the School District issued \$839,000 in tax anticipation notes for general operations of the School District. The coupon interest rate is 4.90 percent and the notes mature on December 1, 2014. The tax anticipation notes will be paid from the general fund with property tax revenues.

On June 29, 2010, the School District issued \$1,776,000 in tax anticipation notes for general operations of the School District. The coupon interest rate is 3.40 percent and the notes mature on December 1, 2015. The tax anticipation notes will be paid from the general fund with property tax revenues.

Principal and interest payments to retire the tax anticipation notes are as follows:

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$523,000	\$62,825	\$585,825
2014	523,000	42,525	565,525
2015	523,000	22,226	545,226
2016	355,200	6,038	361,238
Total	<u>\$1,924,200</u>	<u>\$133,614</u>	<u>\$2,057,814</u>

Note 12 – Long-Term Obligations

Original issue amounts and interest rates of the School District’s debt issues were as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
1997 General Obligation Bonds:			
Capital Appreciation Bonds	6.522% to 6.736%	\$1,269,918	2010 to 2013
2006 Refunding Bonds:			
Serial Bonds	2.90% to 3.70%	5,690,000	2007 to 2021
Capital Appreciation Bonds	6.70%	644,994	2014 to 2015
2011 Energy Conservation Improvement Bonds			
Term Bonds	5.43%	2,327,350	2025

Changes in long-term obligations of the School District during fiscal year 2012 were as follows:

	<u>Principal Outstanding June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2012</u>	<u>Amount Due in One Year</u>
Governmental Activities					
General Obligation Bonds					
1997 General Obligation Bonds					
Capital Appreciation Bonds	\$472,957	\$0	(\$242,898)	\$230,059	\$230,059
Accretion on Bonds	665,795	56,525	(357,102)	365,218	365,218
Total 1997 General Obligation Bonds	<u>1,138,752</u>	<u>56,525</u>	<u>(600,000)</u>	<u>595,277</u>	<u>595,277</u>
2006 Refunding Bonds					
Serial Bonds	5,235,000	0	(85,000)	5,150,000	90,000
Capital Appreciation Bonds	644,994	0	0	644,994	0
Accretion on Bonds	405,499	103,949	0	509,448	0
Premium	276,614	0	(29,375)	247,239	0
Total 2012 Various Purpose Refunding Bonds	<u>6,562,107</u>	<u>103,949</u>	<u>(114,375)</u>	<u>6,551,681</u>	<u>90,000</u>
Energy Conservation Improvement Bonds	2,327,350	0	0	2,327,350	0
Total General Obligation Bonds	<u>\$10,028,209</u>	<u>\$160,474</u>	<u>(\$714,375)</u>	<u>\$9,474,308</u>	<u>\$685,277</u>

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	Principal Outstanding June 30, 2011	Additions	Deductions	Principal Outstanding June 30, 2012	Amount Due in One Year
Governmental Activities (continued)					
Other Long-term Obligations					
Capital Lease	\$0	\$129,583	(\$9,509)	\$120,074	\$21,691
Compensated Absences	994,684	200,614	(96,898)	1,098,400	87,374
<i>Total Other Long-term Obligations</i>	<u>994,684</u>	<u>330,197</u>	<u>(106,407)</u>	<u>1,218,474</u>	<u>109,065</u>
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$11,022,893</u>	<u>\$490,671</u>	<u>(\$820,782)</u>	<u>\$10,692,782</u>	<u>\$794,342</u>

On November 20, 1997, the School District issued \$11,199,918 in general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amount of \$9,930,000 and \$1,269,918, respectively. The general obligation bonds were issued for the purpose of the construction a new high school. The general obligation bonds will be retired from the debt service fund and mature December 2012.

In fiscal year 2006, the School District refunded \$6,335,000, which is the callable portion of the current interest bonds. The School District made the final payment on the noncallable portion of the bonds in fiscal year 2008.

The capital appreciation bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$1,665,082, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2013.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$230,059. The accretion recorded for 2012 was \$56,525, for a total outstanding bond liability of \$595,277 at June 30, 2012.

On March 30, 2006, the School District issued \$6,633,414 in general obligation bonds to which included serial and capital appreciation (deep discount) bonds in the amounts of \$5,590,000 and \$644,994, respectively. The general obligation bonds were issued for the purpose of advance refund the callable portion of the 1997 general obligation bonds to take advantage of lower interest rates. The general obligation bonds will be retired from the debt service fund and mature December 2020.

The serial and capital appreciation bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$885,006, which is being accreted annually until the point of maturity of the capital appreciation bonds which is 2016.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$644,994. The accretion recorded for 2012 was \$103,949, for a total outstanding bond liability of \$1,154,442 at June 30, 2012.

The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2012, \$6,335,000 of the defeased bonds is still outstanding.

On December 14, 2010, the School District issued \$2,327,350 in energy conservation improvement qualified school construction bonds to provide for energy improvements to various School District buildings. The primary source of repayment of this obligation is through energy savings as a result of the improvements. The improvements were not capitalized. The bonds were issued for a 15 year period and are subject to

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

mandatory sinking fund payments. The School District may elect to receive payment directly from the Secretary of the United States Treasury equal to 97 percent of the corresponding interest payable on this issue. The bonds will be repaid from the bond retirement debt service fund.

Compensated absences will be paid from the general fund and the food service, title VI-B, title I and improving teacher quality special revenue funds. The capital lease will be paid from the general fund.

The overall debt margin of the School District as of June 30, 2012, was \$12,536,916 with an unvoted debt margin of \$224,375. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Accretion
2013	\$90,000	\$212,585	\$230,059	\$384,941
2014	715,000	193,023	0	0
2015	0	175,147	339,801	430,199
2016	0	175,147	305,193	454,807
2017	795,000	159,247	0	0
2018 - 2021	3,550,000	291,248	0	0
Total	<u>\$5,150,000</u>	<u>\$1,206,397</u>	<u>\$875,053</u>	<u>\$1,269,947</u>

Fiscal Year Ending June 30,	2011 Energy Conservation Improvement Bonds			
	Principal	Interest	Subsidy	Sinking Fund Payment
2013	\$0	\$126,375	(\$122,186)	\$155,157
2014	0	126,375	(122,186)	155,157
2015	0	126,375	(122,186)	155,157
2016	0	126,375	(122,186)	155,157
2017	0	126,375	(122,186)	155,157
2018-2022	0	631,875	(610,930)	775,784
2023-2026	2,327,350	442,313	(427,649)	(1,551,569)
Total	<u>\$2,327,350</u>	<u>\$1,706,063</u>	<u>(\$1,649,509)</u>	<u>\$0</u>

Note 13 – Capital Lease

During the fiscal year, the School District entered into a capitalized lease obligation for copier equipment. This lease meets criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases” and has been recorded on the government-wide statements.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The asset acquired through this capital lease is as follows:

<i>Asset:</i>	
Equipment & Furniture	\$129,583
Less: Accumulated Depreciation	<u>(12,959)</u>
Total Book Value as of June 30, 2012	<u><u>\$116,624</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30,	Governmental Activities
2013	\$27,181
2014	29,652
2015	29,652
2016	29,652
2017	<u>19,768</u>
Total Minimum Lease Payments	135,905
Less: Amount Representing Interest	<u>(15,831)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$120,074</u></u>

Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

Note 14 - Interfund Transfers and Balances

Interfund Transfers

The general fund made a transfer of \$205,912 to the bond retirement fund to support debt service requirements.

Interfund Balances

Interfund balances at June 30, 2012, consist of an interfund receivable/payable between the general fund and nonmajor governmental funds in the amount of \$73,293. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

Note 15 - Jointly Governed Organizations

North Eastern Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Liberty Local School District paid \$17,046 to NEOMIN during fiscal year 2012.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent or NEOMIN). The Liberty Local School District was not represented on the Governing Board during fiscal year 2012. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

Trumbull County Career and Technical Center The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio providing vocational needs of the students. The center is operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Trumbull County Joint Vocational School, Gary Ghizzoni, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

Note 16 - Risk Management

Property and Liability

The School 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 School District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles and general liability.

General liability insurance is maintained in the amount of \$4,000,000 for each occurrence and \$6,000,000 in the aggregate.

The School District maintains fleet insurance in the amount of \$4,000,000 for any one accident or loss.

The School District maintains replacement cost insurance on buildings and contents in the amount of \$47,180,923.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

Employee Health Benefits

The School District has elected to provide employee medical/surgical benefits through a self-insured program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss of this program. A third party administrator, Anthem Insurance Companies, Inc., reviewed and paid all claims for fiscal year 2012. The School District pays into the self-insurance internal service fund a premium that is paid by the fund that pays the salary for the employee and is based on historical cost information.

The claims liability of \$310,500 reported in the internal service fund at June 30, 2012 is based on estimates provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Changes in total claims liability during fiscal years 2011 and 2012 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2011	\$96,798	\$2,656,588	\$2,352,686	\$400,700
2012	400,700	1,951,422	2,041,622	310,500

Worker’s Compensation

The School District pays the State Worker’s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll times the contribution rate established by Worker’s Compensation for the School District. This rate is calculated based on accident history and administrative costs.

Note 17 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$245,466, \$240,694 and \$255,284, respectively. For fiscal year 2012, 94.01 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$733,513 and \$24,832 for the fiscal year ended June 30, 2012, \$759,468 and \$24,832 for the fiscal year ended June 30, 2011, and \$796,705 and \$24,832 for the fiscal year ended June 30, 2010. For fiscal year 2012, 80.44 percent has been contributed for the DB plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$11,618 made by the School District and \$8,299 made by the plan members. In addition, member contributions of \$17,737 were made for fiscal year 2012 for the defined portion of the Combined Plan.

Note 18 – Postemployment Benefits

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$32,490 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$43,120, \$61,363 and \$41,407, respectively. For fiscal year 2012, 94.01 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010, were \$14,496, \$15,489 and \$15,181, respectively. For fiscal year 2012, 94.01 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$56,768, \$60,331 and \$63,195, respectively. For fiscal year 2012, 80.44 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 19 - Other Employee Benefits

Compensated Absences

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

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

Life Insurance Benefits

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

Note 20 - Contingencies

Grants

The School 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

The School District is not a party to legal proceedings.

Note 21 - Set Asides

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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

	Capital Improvements
Set Aside Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	184,737
Current Year Offsets	(133,674)
Qualifying Disbursements	(44,118)
Total	\$6,945
Set-aside Balance Carried Forward to Future Fiscal Years	\$6,945
Set Aside Balance as of June 30, 2012	\$6,945

In addition to the above statutory set-aside, the School District also has \$39,581 in monies restricted for school bus purchases. The total restricted for set asides at the end of the fiscal year was \$46,526.

Note 22 – Fiscal Emergency

On July 11, 2011, the Auditor of State declared the School District in fiscal emergency. Many factors have contributed to the School District’s financial condition including significant reductions in State revenues, Statewide reductions in the funding formula as a result of the economic crisis, phase-out of the tangible personal property tax, increasing health care costs and building maintenance costs and a significant decline in growth on the local level. Also, the School District has incurred significant debt as the result of an escalation in borrowing to meet operational expenses. The School District received an advance from the State Solvency Fund during fiscal year 2012 and cut costs as much as possible for fiscal year 2011.

Note 23 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$16,463
Nonmajor funds	143,852
Total	\$160,315

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
<i>Nutrition Cluster:</i>			
National School Breakfast Program	10.553	\$128,852	\$128,852
National School Lunch Program	10.555	348,542	348,542
<i>Direct Program:</i>			
<i>Non-Cash Assistance:</i>			
National School Lunch Program	10.555	28,755	28,755
TOTAL U.S. DEPARTMENT OF AGRICULTURE		506,149	506,149
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
<i>Title I, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	124,667	124,203
Title I Grants to Local Educational Agencies	84.010	81,550	45,091
Title I Grants to Local Educational Agencies	84.010	339,046	388,504
ARRA Title I Grants to Local Educational Agencies	84.389	90,446	61,519
<i>Total Title I Grants to Local Educational Agencies</i>		<u>635,709</u>	<u>619,317</u>
<i>Special Education Cluster (IDEA)</i>			
Special Education Grants to States	84.027	90,890	90,890
Special Education Grants to States	84.027	72,742	25,453
Special Education Grants to States	84.027	188,551	208,096
ARRA Special Education Grants to States	84.931	226,251	116,575
<i>Total Special Education Grants to States</i>		<u>578,434</u>	<u>441,014</u>
<i>Education Jobs Funds</i>			
Education Jobs Funds	84.410	4,458	4,458
<i>Total Education Jobs Funds Grants</i>			
<i>Race to the Top</i>			
Race to the Top	84.395	3,150	3,150
<i>Total Race to the Top</i>			
<i>Education Technology State Grants Title II, Part D</i>			
Education Technology State Grants Title II, Part D	84.318	4,049	1,163
Education Technology State Grants Title II, Part D	84.318	0	623
<i>Total Education Technology State Grants</i>		<u>4,049</u>	<u>1,786</u>
<i>Improving Teacher Quality State Grants Title II, Part A</i>			
Improving Teacher Quality State Grants	84.340	5,994	5,994
Improving Teacher Quality State Grants	84.340	35,721	110
Improving Teacher Quality State Grants	84.340	26,541	32,408
<i>Total Improving Teacher Quality State Grants</i>		<u>68,256</u>	<u>38,512</u>
<i>ARRA State Fiscal Stabilization Fund - Education State Grants</i>			
ARRA State Fiscal Stabilization Fund - Education State Grants	84.394	0	34,104
ARRA State Fiscal Stabilization Fund - Education State Grants	84.394	0	17,155
<i>Total State Fiscal Stabilization Fund - Education State Grants Recovery Act</i>		<u>0</u>	<u>51,259</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		1,294,056	1,159,496
TOTALS		<u>\$1,800,205</u>	<u>\$1,665,645</u>

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Liberty Local School District's (the District) federal award programs receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Government assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-002 described in the accompanying schedule of findings to be a 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 an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 24, 2013.

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

Columbus, Ohio

June 24, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Liberty Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Liberty Local School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Government's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Liberty Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

Columbus, Ohio

June 24, 2013

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Cluster (84.010 & 84.389) Nutrition Cluster (10.553 & 10.555) Special Education Cluster (84.027 & 84.931)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

1. Encumbering Obligations

<i>Finding Number</i>	2012-001
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NONCOMPLIANCE

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

**FINDING NUMBER 2012 -001
(Continued)**

The statute provides the following exceptions to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year: Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Per Unit Contracts: Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified.

Contract or Lease Running Beyond the Termination of the Fiscal Year Made: Pursuant to Section 5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

The District did not timely encumber funds. All purchase orders contained the required fiscal certification and signature of the Treasurer. However, 27% of the disbursements reviewed were not timely encumbered, whereby the fiscal certification was after the date of obligation.

We recommend the District implement controls to help ensure compliance with this requirement.

Official's Response: The District will implement controls to help ensure compliance.

2. Schedule of Federal Awards

<i>Finding Number</i>	2012-002
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MATERIAL WEAKNESS

The District did not compile an accurate federal schedule. The reporting procedures and classification of federal activity should be consistent from year to year.

**FINDING NUMBER 2012 -002
(Continued)**

The federal schedule provided by the District had the following misstatements to expenditure amounts: the school breakfast program was understated by \$128,852, the school lunch program was understated by \$348,542, the State Fiscal Stabilization Funds program was understated by \$51,258, the Improving Teacher Quality IIA program was understated by \$6,104, the Title I program was understated by \$230,812, the Technology Part II-D program was understated by \$1,163, and the IDEA Part B program was understated by \$232,917. The federal schedule was adjusted for these amounts.

The federal schedule provided by the District had the following misstatements to receipt amounts: the school breakfast program was understated by \$128,852, the school lunch program was understated by \$348,542, the Improving Teacher Quality II-A program was understated by \$41,715, the Title I program was understated by \$296,663, the Technology Part II-D program was understated by \$4,048, and the IDEA Part B program was understated by \$389,882. The federal schedule was adjusted for these amounts.

We recommend the preparation of the federal schedule be monitored as a part of the mechanics to ensure accuracy and fair presentation of all District federal activity.

These procedures will help provide assurance the Federal receipt and expenditure activity is properly handled and fairly presented on the District's monthly and annual financial reports.

Official's Response: The Federal schedule will be monitored to ensure accuracy and fair presentation of all District federal activity.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Expenditures Exceeded Appropriations	No	Partially Corrected. Verbal comment made.
2011-002	Budget Amounts Not Entered Into Accounting System	Yes	Finding No Longer Valid
2011-003	Lack of 412 Certificate	Yes	Finding No Longer Valid
2011-004	Negative Fund Balances	No	Partially Corrected. Verbal comment made.
2011-005	Instructional Materials Set Asides	Yes	Finding No Longer Valid
2011-006	Excess Board Payments to SERS for \$12,720 against former Treasurer Tracey Obermiyer	No	Not Corrected and Not Repaid
2011-007	Capital Assets	No	Not Corrected. Reissued as a Management Letter comment.
2011-008	State Fiscal Stabilization Fund – Cash Management	Yes	Finding No Longer Valid

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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
AUGUST 20, 2013