



Dave Yost • Auditor of State

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Award Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 24, 2014

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Liberty Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
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, 2013. 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. The first payment on the advance was made during fiscal year 2013.
- 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 2012 to fiscal year 2013. As a result of this decrease, there was a decrease in School Foundation revenues from the State of Ohio.
- The general fund had an increase in fund balance due mainly to decreases in expenditures. The decrease can be attributed to a few variables. During fiscal year 2013, there were staff reductions and reductions in health care premiums. The School District took several months of premium holidays during fiscal year 2013 due to the surplus in the self-insurance fund.

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 deferred outflows of resources and liabilities and deferred inflows of resources, 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).

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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 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 13 and 14 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 15-19 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 20-22 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 23 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 24-48 of this report.

Government-wide Financial Analysis

As noted earlier, net position 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 2013 compared to 2012.

Liberty Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 1
 Net Position
 Governmental Activities

	2013	2012	Change
Assets			
Current and Other Assets	\$14,304,180	\$14,516,149	(\$211,969)
Capital Assets, Net	9,490,740	10,003,655	(512,915)
<i>Total Assets</i>	<u>23,794,920</u>	<u>24,519,804</u>	<u>(724,884)</u>
Deferred Outflows of Resources	<u>150,903</u>	<u>171,249</u>	<u>(20,346)</u>
Liabilities			
Current Liabilities	4,171,087	5,962,916	1,791,829
Long-Term Liabilities			
Due Within One Year	849,669	794,342	(55,327)
Due In More Than One Year	9,174,333	9,898,440	724,107
<i>Total Liabilities</i>	<u>14,195,089</u>	<u>16,655,698</u>	<u>2,460,609</u>
Deferred Inflows of Resources	<u>8,520,679</u>	<u>8,687,925</u>	<u>167,246</u>
Net Position			
Net Investment in Capital Assets	3,612,621	3,782,538	(169,917)
Restricted for:			
Capital Projects	195,186	237,285	(42,099)
Debt Service	1,405,951	816,362	589,589
Set-Aside	57,745	46,526	11,219
Honors Programs			
Nonexpendable	30,253	24,415	5,838
Other Purposes	391,837	491,713	(99,876)
Unrestricted (Deficit)	<u>(4,463,538)</u>	<u>(6,051,409)</u>	<u>1,587,871</u>
<i>Total Net Position</i>	<u><u>\$1,230,055</u></u>	<u><u>(\$652,570)</u></u>	<u><u>\$1,882,625</u></u>

Current assets decreased mainly due to decreases in property taxes and intergovernmental receivable. 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 is due to the School District having a smaller grant carryover when compared to the prior fiscal year. The decrease in capital assets was due to an additional year of depreciation outpacing current year additions.

The School District had a decrease in total liabilities which can be attributed to the current year payments on the outstanding notes payable. The first of two payments to retire the solvency assistance loan advance was made along with the annual payment on the outstanding tax anticipation notes. Accounts Payable decreased as well when compared to the prior fiscal year. 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 fiscal year, the following table gives readers further details regarding the results of activities for 2013 and 2012.

Liberty Local School District
Management's Discussion and Analysis
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Table 2
Change in Net Assets
Governmental Activities

	2013	2012	Change
Program Revenues			
Charges for Services and Sales	\$1,113,489	\$1,094,543	\$18,946
Operating Grants, Interest and Contributions	1,525,757	1,474,793	50,964
Capital Grants	19,367	18,971	396
<i>Total Program Revenues</i>	<u>2,658,613</u>	<u>2,588,307</u>	<u>70,306</u>
General Revenues			
Property Taxes	8,484,743	8,665,411	(180,668)
Grants and Entitlements	6,607,525	6,608,474	(949)
Investment Earnings	3,976	8,754	(4,778)
Miscellaneous	276,750	554,841	(278,091)
<i>Total General Revenues</i>	<u>15,372,994</u>	<u>15,837,480</u>	<u>(464,486)</u>
<i>Total Revenues</i>	<u>18,031,607</u>	<u>18,425,787</u>	<u>(394,180)</u>
Program Expenses			
Instruction:			
Regular	8,093,907	9,042,978	949,071
Special	1,503,288	1,685,473	182,185
Support Services:			
Pupils	677,082	454,990	(222,092)
Instructional Staff	446,581	477,658	31,077
Board of Education	17,418	17,082	(336)
Administration	1,350,163	1,590,814	240,651
Fiscal	298,858	431,821	132,963
Business	1,572	4,077	2,505
Operation and Maintenance of Plant	1,095,691	2,160,285	1,064,594
Pupil Transportation	905,928	784,005	(121,923)
Central	37,270	40,012	2,742
Operation of Non-Instructional Services	1,000	601	(399)
Operation of Food Service	731,111	847,495	116,384
Extracurricular Activities	457,513	365,239	(92,274)
Interest and Fiscal Charges	531,600	663,871	132,271
<i>Total Program Expenses</i>	<u>16,148,982</u>	<u>18,566,401</u>	<u>2,417,419</u>
<i>Change in Net Position</i>	1,882,625	(140,614)	2,023,239
Net Position (Deficit) Beginning of Year	(652,570)	(511,956)	(140,614)
Net Position (Deficit) End of Year	<u>\$1,230,055</u>	<u>(\$652,570)</u>	<u>\$1,882,625</u>

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 increase in operating grants can be attributed to the School District receiving additional Title I grant monies compared to fiscal year 2012.

Liberty Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The decrease in program expenses can be attributed to the State Commission overseeing finances requesting that the School District reduce expenses. The School District reduced employees during the year. Personnel decreased by 17 employees with the majority of the positions being teaching staff. Health care costs were reduced during fiscal year 2013 due to the School District taking several months of premium holidays. This was due to a surplus within the self-insurance fund realized when the self-insurance fund balance was compared to the reserve balance recommended by the third party administrator.

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 2013 compared to 2012.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2013		2012	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$8,093,907	\$6,699,240	\$9,042,978	\$8,029,019
Special	1,503,288	1,096,896	1,685,473	1,225,617
Support Services:				
Pupils	677,082	677,082	454,990	449,520
Instructional Staff	446,581	404,182	477,658	385,817
Board of Education	17,418	17,418	17,082	17,082
Administration	1,350,163	1,255,970	1,590,814	1,463,893
Fiscal	298,858	298,858	431,821	431,821
Business	1,572	1,572	4,077	3,303
Operation and Maintenance of Plant	1,095,691	1,013,988	2,160,285	2,141,314
Pupil Transportation	905,928	905,928	784,005	705,531
Central	37,270	31,870	40,012	33,200
Operation of Non-Instructional Services	1,000	1,000	601	601
Operation of Food Service	731,111	188,113	847,495	162,726
Extracurricular Activities	457,513	366,652	365,239	264,779
Interest and Fiscal Charges	531,600	531,600	663,871	663,871
Total	<u>\$16,148,982</u>	<u>\$13,490,369</u>	<u>\$18,566,401</u>	<u>\$15,978,094</u>

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.

Financial Analysis of the Government's Funds

Governmental Funds Information about the School District's major funds begins on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,015,895 and expenditures of \$15,699,697. The general fund had an increase in fund balance due mainly to decreases in expenditures. These decreases can be attributed to the State Commission requiring the School District to reduce expenditures. The decrease is most significant for the instructional expenditures. A majority of the personnel reductions for the 2013 fiscal year included certified (teaching) staff paid out of

Liberty Local School District
Management's Discussion and Analysis
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Unaudited

the general fund. The bond retirement fund had an increase in fund balance due revenues exceeding expenditures in the current year. The increase in fund balance was less than the prior year increase in fund balance due to a decrease in property tax revenue. Other Governmental Funds had a decrease in fund balance due to a decrease of grant monies.

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 2013, 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 and intergovernmental revenue 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 regular and special instruction. Overall, the change in the general fund balance was positive. This can be attributed to the cost cutting measures taken during the fiscal year and close monitoring of expenditures.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2013 values compared to fiscal 2012.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2013	2012
Land	\$349,160	\$349,160
Land Improvements	204,695	254,825
Buildings and Improvements	8,398,717	8,740,749
Furniture and Fixtures	511,801	611,345
Vehicles	26,367	47,576
Total Capital Assets	\$9,490,740	\$10,003,655

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

Liberty Local School District
Management's Discussion and Analysis
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Unaudited

Debt

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

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

	2013	2012
1997 General Obligation Bonds	\$0	\$595,277
2006 Refunding Bonds	6,546,541	6,551,681
Energy Conservation Improvement Bonds	2,327,350	2,327,350
Capital Leases	106,164	120,074
Total	\$8,980,055	\$9,594,382

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 \$13,274,185 with an unvoted debt margin of \$222,542. 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 a revised recovery plan on October 23, 2013. 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.

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 in place. All of the School District's financial abilities will be needed to meet the challenges of the future.

Liberty Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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 Lori Simione, Treasurer, Liberty Local School District, 4115 Shady Road, Youngstown, Ohio 44505-1395.

Liberty Local School District

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,513,390
Cash and Cash Equivalents with Fiscal Agents	310,313
Intergovernmental Receivable	173,709
Inventory Held for Resale	3,062
Materials and Supplies Inventory	10,816
Property Taxes Receivable	10,292,890
Nondepreciable Capital Assets	349,160
Depreciable Capital Assets, Net	<u>9,141,580</u>
<i>Total Assets</i>	<u>23,794,920</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	<u>150,903</u>
Liabilities	
Accounts Payable	44,549
Accrued Wages and Benefits	1,169,939
Intergovernmental Payable	325,103
Accrued Interest Payable	32,496
Notes Payable	2,361,700
Claims Payable	237,300
Long-Term Liabilities:	
Due Within One Year	849,669
Due In More Than One Year	<u>9,174,333</u>
<i>Total Liabilities</i>	<u>14,195,089</u>
Deferred Inflows of Resources	
Property Taxes	<u>8,520,679</u>
Net Position	
Net Investment in Capital Assets	3,612,621
Restricted for:	
Capital Projects	195,186
Debt Service	1,405,951
Set Asides	57,745
Honors Programs	
Nonexpendable	30,253
Other Purposes	391,837
Unrestricted (Deficit)	<u>(4,463,538)</u>
<i>Total Net Position</i>	<u><u>\$1,230,055</u></u>

See accompanying notes to the basic financial statements

Liberty Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions		
Governmental Activities					
Instruction:					
Regular	\$8,093,907	\$633,771	\$760,896	\$0	(\$6,699,240)
Special	1,503,288	111,440	294,952	0	(1,096,896)
Support Services:					
Pupils	677,082	0	0	0	(677,082)
Instructional Staff	446,581	0	42,399	0	(404,182)
Board of Education	17,418	0	0	0	(17,418)
Administration	1,350,163	94,193	0	0	(1,255,970)
Fiscal	298,858	0	0	0	(298,858)
Business	1,572	0	0	0	(1,572)
Operation and Maintenance of Plant	1,095,691	62,336	0	19,367	(1,013,988)
Pupil Transportation	905,928	0	0	0	(905,928)
Central	37,270	0	5,400	0	(31,870)
Operation of Non-Instructional Services	1,000	0	0	0	(1,000)
Operation of Food Service	731,111	122,188	420,810	0	(188,113)
Extracurricular Activities	457,513	89,561	1,300	0	(366,652)
Interest and Fiscal Charges	531,600	0	0	0	(531,600)
<i>Totals</i>	\$16,148,982	\$1,113,489	\$1,525,757	\$19,367	(13,490,369)
General Revenues					
Property Taxes Levied for:					
					6,937,302
					1,413,466
					133,975
Grants and Entitlements not Restricted to Specific Programs					
					6,607,525
					3,976
					276,750
					<i>Total General Revenues</i>
					15,372,994
					1,882,625
					<i>Net Position (Deficit) Beginning of Year</i>
					(652,570)
					<i>Net Position End of Year</i>
					\$1,230,055

See accompanying notes to the basic financial statements

Liberty Local School District

Balance Sheet

Governmental Funds

June 30, 2013

	<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	\$1,068,789	\$960,813	\$684,140	\$2,713,742
Cash and Cash Equivalents With Fiscal Agents	0	310,313	0	310,313
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	57,745	0	0	57,745
Intergovernmental Receivable	57,867	0	115,842	173,709
Interfund Receivable	34,123	0	0	34,123
Inventory Held for Resale	0	0	3,062	3,062
Materials and Supplies Inventory	9,144	0	1,672	10,816
Property Taxes Receivable	9,152,921	973,924	166,045	10,292,890
<i>Total Assets</i>	<u>\$10,380,589</u>	<u>\$2,245,050</u>	<u>\$970,761</u>	<u>\$13,596,400</u>
Liabilities				
Accounts Payable	\$39,501	\$0	\$5,048	\$44,549
Accrued Wages and Benefits	1,058,393	0	111,546	1,169,939
Interfund Payable	0	0	34,123	34,123
Intergovernmental Payable	290,777	0	34,326	325,103
Accrued Interest Payable	4,390	0	0	4,390
Notes Payable	2,361,700	0	0	2,361,700
<i>Total Liabilities</i>	<u>3,754,761</u>	<u>0</u>	<u>185,043</u>	<u>3,939,804</u>
Deferred Inflows of Resources				
Property Taxes	7,571,446	810,993	138,240	8,520,679
Unavailable Revenue	1,529,642	156,340	46,947	1,732,929
<i>Total Deferre Inflows of Resources</i>	<u>9,101,088</u>	<u>967,333</u>	<u>185,187</u>	<u>10,253,608</u>
Fund Balances				
Nonspendable	9,144	0	31,925	41,069
Restricted	57,745	1,277,717	577,760	1,913,222
Unassigned (Deficit)	<u>(2,542,149)</u>	<u>0</u>	<u>(9,154)</u>	<u>(2,551,303)</u>
<i>Total Fund Balances (Deficit)</i>	<u>(2,475,260)</u>	<u>1,277,717</u>	<u>600,531</u>	<u>(597,012)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$10,380,589</u>	<u>\$2,245,050</u>	<u>\$970,761</u>	<u>\$13,596,400</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, 2013*

Total Governmental Fund Balances	(\$597,012)
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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.	9,490,740
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Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.

Delinquent Property Taxes	1,712,662
Intergovernmental	<u>20,267</u>

Total	1,732,929
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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.	504,603
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(28,106)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(8,873,891)
Capital Leases	(106,164)
Compensated Absences	(1,043,947)
Deferred Charge on Refunding	<u>150,903</u>

Total	<u>(9,873,099)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$1,230,055</u></u>
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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, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,887,100	\$1,406,344	\$132,954	\$8,426,398
Intergovernmental	6,402,252	235,200	1,550,179	8,187,631
Interest	3,976	0	4,984	8,960
Tuition and Fees	839,917	0	0	839,917
Extracurricular Activities	10	0	89,551	89,561
Contributions and Donations	0	0	2,154	2,154
Charges for Services	0	0	122,188	122,188
Rentals	62,336	0	0	62,336
Miscellaneous	276,750	0	0	276,750
<i>Total Revenues</i>	<u>14,472,341</u>	<u>1,641,544</u>	<u>1,902,010</u>	<u>18,015,895</u>
Expenditures				
Current:				
Instruction:				
Regular	6,572,905	0	734,130	7,307,035
Special	1,142,846	0	333,746	1,476,592
Support Services:				
Pupils	600,410	0	55,886	656,296
Instructional Staff	373,378	0	44,747	418,125
Board of Education	17,418	0	0	17,418
Administration	1,351,443	0	0	1,351,443
Fiscal	272,645	0	0	272,645
Business	1,572	0	0	1,572
Operation and Maintenance of Plant	988,588	14,898	43,040	1,046,526
Pupil Transportation	875,110	0	1,199	876,309
Central	37,270	0	0	37,270
Operation of Non-Instructional Services	1,000	0	0	1,000
Operation of Food Service	0	0	680,483	680,483
Extracurricular Activities	303,802	0	108,327	412,129
Capital Outlay	9,496	0	0	9,496
Debt Service:				
Principal Retirement	23,406	705,000	0	728,406
Interest and Fiscal Charges	67,492	339,460	0	406,952
<i>Total Expenditures</i>	<u>12,638,781</u>	<u>1,059,358</u>	<u>2,001,558</u>	<u>15,699,697</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	1,833,560	582,186	(99,548)	2,316,198
Other Financing Sources				
Inception of Capital Lease	9,496	0	0	9,496
<i>Net Change in Fund Balances</i>	1,843,056	582,186	(99,548)	2,325,694
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(4,318,316)</u>	<u>695,531</u>	<u>700,079</u>	<u>(2,922,706)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$2,475,260)</u>	<u>\$1,277,717</u>	<u>\$600,531</u>	<u>(\$597,012)</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, 2013*

Net Change in Fund Balances - Total Governmental Funds \$2,325,694

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 Asset Additions	18,071
Current Year Depreciation	<u>(530,986)</u>

Total	(512,915)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	58,345
Intergovernmental	(42,120)
Tuition and Fees	<u>(513)</u>

Total	15,712
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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. 728,406

Other financing sources in the governmental funds, such as inception of capital lease, increase long-term liabilities in the statement of net position. (9,496)

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	281
Amortization of Accretion	(104,583)
Amortization of Deferred Charge on Refunding	<u>(20,346)</u>

Total	(124,648)
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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. 54,453

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. (594,581)

Change in Net Position of Governmental Activities \$1,882,625

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,306,055	\$6,306,055	\$6,266,315	(\$39,740)
Intergovernmental	6,396,835	6,396,835	6,356,524	(40,311)
Interest	4,001	4,001	3,976	(25)
Tuition and Fees	749,937	749,937	745,211	(4,726)
Extracurricular Activities	10	10	10	0
Rentals	62,731	62,731	62,336	(395)
Miscellaneous	286,393	286,393	284,588	(1,805)
<i>Total Revenues</i>	<u>13,805,962</u>	<u>13,805,962</u>	<u>13,718,960</u>	<u>(87,002)</u>
Expenditures				
Current:				
Instruction:				
Regular	8,750,789	7,819,630	6,665,147	1,154,483
Special	1,497,222	1,159,491	1,159,398	93
Support Services:				
Pupils	381,063	613,857	613,630	227
Instructional Staff	368,471	373,373	371,514	1,859
Board of Education	23,222	25,202	17,418	7,784
Administration	1,042,533	1,291,801	1,217,903	73,898
Fiscal	419,563	508,273	313,129	195,144
Business	5,500	4,256	1,572	2,684
Operation and Maintenance of Plant	1,171,363	1,181,250	984,814	196,436
Pupil Transportation	886,418	903,858	845,170	58,688
Central	32,620	39,119	37,404	1,715
Operation of Non-Instructional Services	0	1,000	1,000	0
Extracurricular Activities	322,372	327,313	306,325	20,988
Debt Service:				
Principal	960,500	960,500	960,500	0
<i>Total Expenditures</i>	<u>15,861,636</u>	<u>15,208,923</u>	<u>13,494,924</u>	<u>1,713,999</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,055,674)	(1,402,961)	224,036	1,626,997
Other Financing Uses				
Advances Out	0	(34,123)	(34,123)	0
<i>Net Change in Fund Balance</i>	(2,055,674)	(1,437,084)	189,913	1,626,997
<i>Fund Balance Beginning of Year</i>	777,132	777,132	777,132	0
Prior Year Encumbrances Appropriated	14,725	14,725	14,725	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$1,263,817)</u>	<u>(\$645,227)</u>	<u>\$981,770</u>	<u>\$1,626,997</u>

See accompanying notes to the basic financial statements

Liberty Local School District

Statement of Fund Net Position

Internal Service Fund

June 30, 2013

	<u>Self Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$741,903
Liabilities	
Claims Payable	<u>237,300</u>
Net Position	
Unrestricted	<u><u>\$504,603</u></u>

See accompanying notes to the basic financial statements

See accountant's compilation report

Liberty Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2013*

	Self Insurance
Operating Revenues	
Charges for Services	\$1,153,834
Operating Expenses	
Purchased Services	37,111
Claims	1,711,304
<i>Total Operating Expenses</i>	1,748,415
<i>Operating Loss</i>	(594,581)
<i>Net Position Beginning of Year</i>	1,099,184
<i>Net Position End of Year</i>	\$504,603

See accompanying notes to the basic financial statement

Liberty Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,153,834
Cash Payments for Goods and Services	(37,111)
Cash Payments for Claims	(1,784,504)
<i>Net Decrease in Cash and Cash Equivalents</i>	(667,781)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,409,684
<i>Cash and Cash Equivalents End of Year</i>	\$741,903
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$594,581)
Adjustments:	
Decrease in Claims Payable	(73,200)
<i>Net Cash Used for Operating Activities</i>	(\$667,781)
See accompanying notes to the basic financial statements	

Liberty Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2013

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$43,317</u>
Liabilities	
Due to Students	<u>\$43,317</u>

See accompanying notes to the basic financial statements

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 66 non-certified and 97 certificated personnel who provide services to 1,241 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 NorthEast 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 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, 2013

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 deferred outflows of resources and liabilities and deferred inflows of resources 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, 2013

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 deferred outflows of resources and all liabilities and deferred inflows of resources 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 deferred outflows of resources and current liabilities and deferred inflows of resources, 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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows 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, 2013, but which were levied to finance fiscal year 2014 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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

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 2013, 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, 2013.

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 2013 amounted to \$3,976, which includes \$701 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 expended/expensed 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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

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.

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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.

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

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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

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. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education, delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated.

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 all other elements in a statement of financial position. 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.

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, 2013

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 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB 14 and 34," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," and Statement No. 66 "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any changes in the School District's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units' presentation and certain disclosure requirements. These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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	\$9,144	\$0	\$1,672	\$10,816
Honors Program	0	0	30,253	30,253
<i>Total Nonspendable</i>	9,144	0	31,925	41,069
<i>Restricted for</i>				
Food Service Operations	0	0	206,007	206,007
Scholarships	0	0	393	393
Athletics	0	0	19,101	19,101
Auxiliary Services	0	0	29,258	29,258
Early Childhood Educational Programs	0	0	86,046	86,046
Student Programs	0	0	68,449	68,449
Debt Service Payments	0	1,277,717	0	1,277,717
Capital Improvements	57,745	0	168,506	226,251
<i>Total Restricted</i>	57,745	1,277,717	577,760	1,913,222
<i>Unassigned (Deficit)</i>	(2,542,149)	0	(9,154)	(2,551,303)
<i>Total Fund Balances (Deficit)</i>	(\$2,475,260)	\$1,277,717	\$600,531	(\$597,012)

Note 5 – Accountability and Compliance

Accountability

Fund balances at June 30, 2013, included the following individual fund deficits:

General Fund	\$2,475,260
<i>Special Revenue Funds</i>	
Title VI-B	7,889
Improving Teacher Quality	1,265

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

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.

The School District did not comply with the requirements of Ohio Revised Code Section 5705.39.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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. Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Budgetary revenues and expenditures of the special trust, public school support and retirement trust are classified to general fund for GAAP Reporting.

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:

Net Change in Fund Balance	
	General
GAAP Basis	\$1,843,056
Net Adjustment for Revenue Accruals	(857,665)
Perspective Difference:	
Special Trust	(100)
Public School Support	2,277
Retirement Trust	82
Net Adjustment for Expenditure Accruals	(798,463)
Advances Out	(34,123)
Encumbrances	34,849
Budget Basis	\$189,913

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.

Liberty Local School District
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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;
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, \$3,850,903 of the School District's bank balance of \$4,100,903 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.

Liberty Local School District
Notes to the Basic Financial Statements
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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, 2013, the School District had STAR Ohio as the only investment with an amount of \$7,933 and a maturity of 57.5 days and a rating of AAAM by Standard and Poor's. 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.

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 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at thirty-five 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, 2013, are available to finance fiscal year 2014 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, 2013, 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 are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The amount available as an advance at June 30, 2013, was \$63,972 in the general fund, \$6,591 in the bond retirement fund and \$1,125 in the permanent improvement fund. 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 assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$219,021,410	97.61%	\$216,718,810	97.38%
Public Utility Personal	5,354,010	2.39	5,823,540	2.62
Total	\$224,375,420	100.00%	\$222,542,350	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$51.75		\$51.80	

Note 9 - Receivables

Receivables at June 30, 2013, 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	\$83,370
Bureau of Worker's Compensation	45,728
Public School Preschool Grant	18,793
School Employees Retirement System	12,139
Title VI-B Grant	11,933
Improving Teacher Quality Grant	1,746
Total	\$173,709

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
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	1,948,281	18,071	0	1,966,352
Vehicles	975,261	0	0	975,261
Textbooks	911,660	0	0	911,660
<i>Total at Historical Cost</i>	<i>21,741,664</i>	<i>18,071</i>	<i>0</i>	<i>21,759,735</i>
Less: Accumulated Depreciation				
Land Improvements	(1,073,219)	(50,130)	0	(1,123,349)
Buildings and Improvements	(7,837,669)	(342,032)	0	(8,179,701)
Furniture and Fixtures	(1,336,936)	(117,615)	0	(1,454,551)
Vehicles	(927,685)	(21,209)	0	(948,894)
Textbooks	(911,660)	0	0	(911,660)
<i>Total Accumulated Depreciation</i>	<i>(12,087,169)</i>	<i>(530,986) *</i>	<i>0</i>	<i>(12,618,155)</i>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<i>9,654,495</i>	<i>(512,915)</i>	<i>0</i>	<i>9,141,580</i>
<i>Governmental Activities Capital Assets, Net</i>	<i>\$10,003,655</i>	<i>(\$512,915)</i>	<i>\$0</i>	<i>\$9,490,740</i>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$378,468
Support Services	
Fiscal	26,867
Operation and Maintenance of Plant	29,461
Pupil Transportation	18,687
Operation of Food Service	33,055
Extracurricular Activities	44,448
Total Depreciation Expense	\$530,986

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 11 – Fund Obligations

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

	<u>Outstanding June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2013</u>
2009 4.90%				
Tax Anticipation Notes	\$503,400	\$0	\$167,800	\$335,600
2010 3.40%				
Tax Anticipation Notes	1,420,800	0	355,200	1,065,600
2012 0.00%				
State Solvency Assistance Advance	<u>1,921,000</u>	<u>0</u>	<u>960,500</u>	<u>960,500</u>
Total Fund Obligations	<u>\$3,845,200</u>	<u>\$0</u>	<u>\$1,483,500</u>	<u>\$2,361,700</u>

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.

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 2014, the School District will pay \$960,500 to retire the solvency assistance advance.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$523,000	\$42,525	\$565,525
2015	523,000	22,226	545,226
2016	<u>355,200</u>	<u>6,038</u>	<u>361,238</u>
Total	<u>\$1,401,200</u>	<u>\$70,789</u>	<u>\$1,471,989</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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Changes in long-term obligations of the School District during fiscal year 2013 were as follows:

	Principal Outstanding June 30, 2012	Additions	Deductions	Principal Outstanding June 30, 2013	Amount Due in One Year
Governmental Activities					
General Obligation Bonds					
1997 General Obligation Bonds					
Capital Appreciation Bonds	\$230,059	\$0	(\$230,059)	\$0	\$0
Accretion on Bonds	365,218	19,723	(384,941)	0	0
Total 1997 General Obligation Bonds	595,277	19,723	(615,000)	0	0
2006 Refunding Bonds					
Serial Bonds	5,150,000	0	(90,000)	5,060,000	715,000
Capital Appreciation Bonds	644,994	0	0	644,994	0
Accretion on Bonds	509,448	114,235	0	623,683	0
Premium	247,239	0	(29,375)	217,864	0
Total 2012 Various Purpose Refunding Bonds	6,551,681	114,235	(119,375)	6,546,541	715,000
Energy Conservation Improvement Bonds	2,327,350	0	0	2,327,350	0
Total General Obligation Bonds	\$9,474,308	\$133,958	(\$734,375)	\$8,873,891	\$715,000
Other Long-term Obligations					
Capital Lease	120,074	9,496	(23,406)	106,164	26,895
Compensated Absences	1,098,400	32,921	(87,374)	1,043,947	107,774
Total Other Long-term Obligations	1,218,474	42,417	(110,780)	1,150,111	134,669
Total Governmental Activities					
<i>Long-Term Liabilities</i>	<u>\$10,692,782</u>	<u>\$176,375</u>	<u>(\$845,155)</u>	<u>\$10,024,002</u>	<u>\$849,669</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 were retired from the debt service fund and matured 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.

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, 2013. 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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The maturity amount of outstanding capital appreciation bonds at June 30, 2013 is \$644,994. The accretion recorded for 2013 was \$114,235, for a total outstanding bond liability of \$1,268,677 at June 30, 2013.

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, 2013, \$5,710,000 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 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, 2013, was \$13,274,185 with an unvoted debt margin of \$222,542. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Accretion
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	845,000	126,447	0	0
2019 - 2021	2,705,000	164,801	0	0
Total	<u>\$5,060,000</u>	<u>\$993,812</u>	<u>\$644,994</u>	<u>\$885,006</u>

Fiscal Year Ending June 30,	2011 Energy Conservation Improvement Bonds			
	Principal	Interest	Subsidy	Sinking Fund Payment
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	0	126,375	(122,186)	155,157
2019-2023	0	631,875	(610,930)	775,783
2024-2026	2,327,350	315,938	(305,463)	(1,551,568)
Total	<u>\$2,327,350</u>	<u>\$1,579,688</u>	<u>(\$1,527,323)</u>	<u>\$0</u>

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 13 – Capital Lease

During the fiscal year, the School District entered into a capitalized lease obligation for copier equipment. The School District entered into a capitalized lease obligation for copier equipment in the prior year as well. These leases meet criteria for a capital lease and have been recorded on the government-wide statements.

The assets acquired through these capital leases are as followed:

<i>Asset:</i>	
Equipment & Furniture	\$139,079
Less: Accumulated Depreciation	<u>(40,775)</u>
Total Book Value as of June 30, 2013	<u><u>\$98,304</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, 2013.

Fiscal Year Ending June 30,	Governmental Activities
2014	\$31,997
2015	31,997
2016	31,997
2017	<u>21,331</u>
Total Minimum Lease Payments	117,322
Less: Amount Representing Interest	<u>(11,158)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$106,164</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 Balances

Interfund balances at June 30, 2013, consist of an interfund receivable/payable between the general fund and nonmajor governmental funds in the amount of \$34,123. 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

NorthEast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Liberty Local School District paid \$26,329 to NEOMIN during fiscal year 2013.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 2013. The degree of control exercised by any participating school district is limited to its representation on the NEOMIN Assembly, which consists of one vote for each participating School District. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

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 eighteen 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 \$49,325,295.

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 2013. 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 \$237,300 reported in the internal service fund at June 30, 2013 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, 2013

Changes in total claims liability during fiscal years 2012 and 2013 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2012	\$400,700	\$1,951,422	\$2,041,622	\$310,500
2013	310,500	1,711,304	1,784,504	237,300

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, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 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, 2013, 2012 and 2011 were \$222,469, \$245,466 and \$240,694, respectively. For fiscal year 2013, 93.86 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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.

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

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, 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 \$698,873 and \$20,881 for the fiscal year ended June 30, 2013, \$733,513 and \$24,832 for the fiscal year ended June 30, 2012, and \$759,468 and \$24,832 for the fiscal year ended June 30, 2011. For fiscal year 2013, 80.44 percent has been contributed for the DB plan and 81.50 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2013 were \$5,169 made by the School District and \$3,692 made by the plan members. In addition, member contributions of \$14,915 were made for fiscal year 2013 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, 2013

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 2013, 0.16 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 2013, this amount was \$20,525. During fiscal year 2013, the School District paid \$28,849 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, 2013, 2012 and 2011 were \$2,717, \$43,120 and \$61,363, respectively. For fiscal year 2013, 93.86 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011, were \$12,567, \$14,496 and \$15,489, respectively. For fiscal year 2013, 93.86 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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 2013, 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, 2013, 2012 and 2011 were \$54,086, \$56,768 and \$60,331, respectively. For fiscal year 2013, 81.50 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2013, if applicable, cannot be determined at this time.

Litigation

The School District is a party to legal proceedings. The School District is of the opinion that ultimate disposition of these claims will not have a material effect, if any, on the financial condition of the School District.

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.

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.

Liberty Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

	Capital Improvements
Set Aside Balance as of June 30, 2013	\$6,945
Current Year Set-aside Requirement	228,056
Current Year Offsets	(132,344)
Qualifying Disbursements	(84,493)
Total	\$18,164
Set-aside Balance Carried Forward to Future Fiscal Years	\$18,164
Set Aside Balance as of June 30, 2013	\$18,164

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 \$57,745.

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 2013.

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	\$34,849
Nonmajor funds	107,352
Total	\$142,201

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster				
School Breakfast Program	2012/2013	10.553	\$119,372	\$119,372
National School Lunch Program	2012/2013	10.555	309,516	309,516
Non-Cash Assistance:				
National School Lunch Program	2012/2013	10.555	<u>28,495</u>	<u>28,495</u>
Total U.S. Department of Agriculture - Nutrition Cluste			<u>457,383</u>	<u>457,383</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2012	84.010	128,192	78,734
	2013	84.010	<u>536,705</u>	<u>508,410</u>
Total Title I Part A Grants to Local Educational Agencie			664,897	587,144
Special Education Grants to States	2012	84.027	56,665	37,120
	2013	84.027	<u>284,974</u>	<u>271,485</u>
Total Special Education Grants to States			341,639	308,605
Improving Teacher Quality State Grant	2012	84.367	5,775	
	2013	84.367	<u>39,453</u>	<u>35,899</u>
Total Improving Teacher Quality State Grant			45,228	35,899
Technology Part II-D	2012	84.318		<u>195</u>
Race to the Top (ARRA)	2012	84.395	<u>1,750</u>	<u>1,750</u>
Total U.S. Department of Education			<u>1,053,514</u>	<u>933,593</u>
Totals:			<u>\$1,510,897</u>	<u>\$1,390,976</u>

The accompanying notes are an integral part of this schedule.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Liberty Local School District's (the District's) 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 District 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 AUDITOR'S 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
Youngstown, Ohio 44505

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 24, 2014 wherein the District has been declared to be in fiscal emergency. The financial statements have been prepared assuming the District will continue as a going concern.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001 and 2013-004 described in the accompanying schedule of findings to be 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, opining 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 through 2013-003.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

February 24, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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:

Report on Compliance for Each Major Federal Program

We have audited the Liberty Local School District's (the District) compliance with the applicable 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 the Liberty Local School District's major federal programs for the year ended June 30, 2013. The *Summary of Auditor Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Liberty Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-005. This finding did not require us to modify our compliance opinion on each major federal program.

The District's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

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's applicable 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's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-005 to be a material weakness.

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<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?	Yes
<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	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I (CFDA 84.010) Special Education (CFDA 84.027)
<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. Noncompliance and Material Weakness - Revenue Classification

<i>Finding Number</i>	2013-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Administrative Code Chapter 117-2 provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. "Internal control" means a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting;

**Finding Number 2013-001
 (Continued)**

The control procedures over the review of property tax receipt transactions failed to recognize several errors related to posting classification. These include the following:

The control procedures over the review of property tax receipt transactions failed to recognize several errors related to posting classification. These include the following:

- The District posted \$1,272,823 received from the State of Ohio (for homestead and rollback) as property tax instead of intergovernmental revenue in the General, Bond Retirement, and Permanent Improvement funds.
- The District posted several adjusting entries, for property tax receipts and related County Auditor deductions, which resulted in an overstatement of the revenue and expenditure accounts of \$194,974 each in the General fund.
- The District posted \$177,964 received from the US Treasury (for subsidy credits related to HB 264 Energy Conservation Improvement Bonds) as property tax instead of intergovernmental revenue in the Bond Retirement fund.

When this was brought to the District's attention, they corrected the financial statements to reflect the proper amounts for property tax and intergovernmental revenue. We recommend the District improve its control procedures to ensure all amounts are properly recorded in the accounting system and related financial statements.

Official's Response: These are posting errors that will be corrected and properly recorded in the future.

2. Encumbering Obligations

<i>Finding Number</i>	2013-002
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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.

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.

**Finding Number 2013-002
 (Continued)**

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, 21% of the disbursements reviewed were not timely encumbered, whereby the fiscal certification was after the date of obligation.

The Auditor of State believes budgeting, properly used, provides the most important monitoring control of a government. It is impossible to incur a cash deficit if a government complies with the budgetary law. Additionally, the budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations.

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

Official's Response: The District has implemented controls in FY2014 to ensure compliance.

3. Appropriations limited by Estimated Resources

<i>Finding Number</i>	2013-003
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NONCOMPLIANCE

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

**Finding Number 2013-003
 (Continued)**

The District's general fund appropriations exceeded estimated resources at year end by \$645,227. The District also had several other funds for which the appropriations exceeded estimated resources:

Fund	Estimated Resources	Final Appropriations	Variance
Public School Support	108,571	111,258	(2,687)
District Managed Activities	128,397	139,273	(10,876)
Management Information Systems	(848)	850	(1,698)
Entry Year Programs	-	1,750	(1,750)
Data Communication	(5,784)	8,251	(14,035)
IDEA, Part B	235,998	333,285	(97,287)
Stimulus Title IID	2,415	5,527	(3,112)
Title I	415,265	677,696	(262,431)
Improving Teacher Quality	33,698	53,883	(20,185)

We recommend the District appropriate amounts that do not exceed the estimated resources as certified by the County Budget Commission County.

Official's Response: The District will amend Estimated Resources to reflect actual receipts at the end of the fiscal year. Actual appropriations did not exceed Actual Receipts.

4. Schedule of Federal Awards

<i>Finding Number</i>	2013-004
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MATERIAL WEAKNESS

See Federal Finding 2013-005 in Section 3 below. We believe this finding also represents a material weakness under 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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

5. Schedule of Federal Awards

<i>Finding Number</i>	2013-005
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NONCOMPLIANCE AND MATERIAL WEAKNESS

OMB Circular A-133§ .300 outline a number of auditee responsibilities. These include:

- Identify all federal awards received and expended and the federal programs under which they were received, by CFDA (Catalog of Federal Domestic Assistance) number, CFDA title, year, name of federal agency and name of pass-through agency (if applicable).

**Finding Number 2013-005
(Continued)**

- Prepare financial statements and a schedule of expenditures of federal awards;

OMB Circular A-133 § .310(b)(3) states at a minimum, the schedule of expenditures of Federal awards shall provide total Federal awards expended for each individual Federal program.

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

The federal schedule provided by the District had the following misstatements to expenditure amounts:

- the school breakfast program (CFDA# 10.553) was understated by \$119,372,
- the school lunch program (CFDA# 10.555) was understated by \$309,516, and
- the Race to the Top (CFDA# 84.395) program was understated by \$1,750.

The federal schedule provided by the District had the following misstatements to receipt amounts presented:

- the school breakfast program was understated by \$119,372,
- the school lunch program was understated by \$309,516,
- the Title I program (CFDA# 84.010) was overstated by \$34,123,
- the Technology Part II-D program (CFDA# 84.318) was overstated by \$1,927, and
- the Race to the Top program was understated by \$1,750.

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 District federal activity.

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LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Encumbering Obligations	No	Not Corrected, repeated as 2013-002
2012-002	Schedule of Federal Awards	No	Not Corrected, repeated as 2013-004

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Liberty Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on May 21, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 24, 2014

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

www.ohioauditor.gov

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**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**CORRECTIVE ACTION PLAN
FISCAL YEAR END JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-05	The federal schedule will 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.	6/30/14	Lori Simione

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Dave Yost • Auditor of State

LIBERTY 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
DECEMBER 4, 2014**