

LEBANON CITY SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2005

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Lebanon City School District
700 Holbrook Avenue
Lebanon, Ohio 45036

We have reviewed the *Independent Auditors' Report* of the Lebanon City School District, Warren County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 22, 2006

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LEBANON CITY SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Lebanon City School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lebanon City School District (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lebanon City School District as of June 30, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark Schaefer, Hackett & Co.

Middletown, Ohio
January 31, 2006

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

The Lebanon City School District is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The discussion and analysis is within the limitations of the District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ❑ In total, net assets decreased by (\$5,823,818) or 47.85%. The General Fund reported a negative fund balance of (\$801,253).
- ❑ General receipts accounted for \$65,792,254 or 94.18% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$4,068,016 or 5.82% of total receipts of \$69,860,270.
- ❑ The District had \$74,468,783 in cash disbursements for governmental activities; only \$4,068,016 of these expenses was offset by program specific charges for services, grants or contributions. General receipts (primarily property taxes and entitlements) of \$65,792,254 were not adequate to provide these services and a negative General Fund balance resulted at June 30, 2005.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Government's cash basis of accounting.

Report Components

The *Statement of Net Assets and Statement of Activities* provide information about the cash activities of the District as a whole. Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the District as a Whole

The *Statement of Net Assets* and the *Statement of Activities* reflect how the District performed financially during 2005, within the limitations of cash basis accounting. The *Statement of Net Assets* presents the cash balances and investments of the governmental activities of the District at year-end. The *Statement of Activities* compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, the reader can utilize these statements as one measure of the District's financial condition. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial condition is improving or deteriorating. When evaluating the District's financial condition, the reader should also consider other nonfinancial factors as well, such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the District's programs and services are reported as Governmental Activities.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

Reporting the District's Most Significant Funds

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's major funds.

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

Fiduciary Funds – The District maintains two fiduciary funds, an agency fund and a private purpose fund. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Proprietary Funds – When the Government charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to other department of the District, the service is reported as an internal service fund. The District has one internal service fund to account for employee health-care claims.

Lebanon City School District, Ohio
 Management's Discussion and Analysis
 June 30, 2005
 Unaudited

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 below provides a summary of the District's net assets for 2005 and 2004:

(Table 1)
 Net Assets

| | Governmental Activities | | % of |
|--|-------------------------|---------------------|----------------|
| | 2005 | 2004 (Restated) | Change |
| Assets | | | |
| Cash and Investments | \$5,928,769 | \$12,170,150 | -51.28% |
| Cash and Cash Equivalents with Escrow Agents | 417,563 | 0 | -100.00% |
| Total Assets | 6,346,332 | 12,170,150 | -47.85% |
| Net Assets | | | |
| Restricted for | | | |
| Other Purposes | 376,857 | 486,139 | -22.48% |
| Debt Service | 5,068,464 | 0 | -100.00% |
| Capital Projects | 1,702,264 | 9,557,549 | -82.19% |
| Unrestricted | (801,253) | 2,126,462 | -137.68% |
| Total Net Assets | \$6,346,332 | \$12,170,150 | -47.85% |

Total assets decreased by \$6,119,080. The decrease can be attributed to an operating deficit in the general operating fund and the completion of the construction of a new high school and new elementary school.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

Table 2 demonstrates the changes in net assets for fiscal year 2005. The District experienced an 88.86% increase in total general receipts during 2005. This is attributable to an advance refunding on bonds issued in 2001.

(Table 2)
Change in Net Assets

| | Governmental Activities | | % of Change |
|--|-------------------------|---------------------|----------------|
| | 2005 | 2004 | |
| Revenues | | | |
| Program Receipts: | | | |
| Charges for Services and Sales | \$1,795,923 | \$1,541,818 | 16.48% |
| Operating Grants and Contributions | 2,234,188 | 1,630,688 | 37.01% |
| Capital Grants and Contributions | 37,905 | 0 | 100.00% |
| General Receipts: | | | |
| Property Taxes | | | |
| General Purposes | 13,532,871 | 13,208,932 | 2.45% |
| Debt Service | 2,928,586 | 2,663,444 | 9.95% |
| Capital Projects | 924,385 | 878,150 | 5.27% |
| Grants and Entitlements not Restricted to Specific Programs | | | |
| | 18,278,808 | 16,418,737 | 11.33% |
| Sale of Capital Assets | 20,026 | 0 | 100.00% |
| Notes Issued | 28,757,097 | 0 | 100.00% |
| Investment Earnings | 531,507 | 448,054 | 18.63% |
| Gifts and Donations | 70,407 | 63,257 | 11.30% |
| Miscellaneous | 748,567 | 138,004 | 442.42% |
| Total Receipts | 69,860,270 | 36,991,084 | 88.86% |
| Loss on Bond Refunding | (1,215,305) | 0 | 100.00% |
| Total Receipts and Loss on Refunding | \$68,644,965 | \$36,991,084 | 85.57% |

(Continued)

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

Disbursements increased by \$32,303,236 or 76.71% in 2005 versus 2004. The increase can be attributed to remaining obligations paid during 2005 for the new high school and new elementary school that were expensed. Additionally, the advance refunding of debt created a one-time charge of \$22,797,677.

(Table 2)
Change in Net Assets
(Continued)

| | Governmental Activities | | % of Change |
|---|-------------------------|----------------------|----------------|
| | 2005 | 2004 | |
| Program Disbursements | | | |
| Instruction | | | |
| Regular | \$16,237,715 | \$18,981,545 | -14.46% |
| Special | 2,908,416 | 3,064,724 | -5.10% |
| Vocational | 0 | 113 | -100.00% |
| Adult/Continuing | 7,047 | 6,521 | 8.07% |
| Other | 1,459,371 | 0 | -100.00% |
| Support Services | | | |
| Pupil | 1,847,754 | 2,000,913 | -7.65% |
| Instructional Staff | 2,469,570 | 2,659,413 | -7.14% |
| Board of Education | 47,427 | 33,655 | 40.92% |
| Administration | 3,120,282 | 2,608,593 | 19.62% |
| Fiscal | 807,688 | 822,810 | -1.84% |
| Business | 178,587 | 216,565 | -17.54% |
| Operation of Maintenance of Plant | 3,577,004 | 3,006,758 | 18.97% |
| Pupil Transportation | 3,799,372 | 3,564,211 | 6.60% |
| Central | 454,046 | 296,477 | 53.15% |
| Operating of Non-Instructional Services | 1,439,520 | 1,464,157 | -1.68% |
| Extracurricular Activities | 1,075,673 | 1,111,892 | -3.26% |
| Capital Outlay | 12,241,634 | 0 | -100.00% |
| Debt Service | 22,797,677 | 2,327,200 | 879.62% |
| Total Disbursements | 74,468,783 | 42,165,547 | 76.61% |
| Change in Net Assets | (\$5,823,818) | (\$5,174,463) | 12.55% |

Governmental Activities

The District received 25.33% of its receipts from property taxes and 26.63% from grants and entitlements. The balance of receipts received 48.04% is in the form of program revenues, investment income, gifts and donations, miscellaneous items and debt refinancing.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

Disbursements for instruction represent 25.57% of the total governmental disbursements. Support services represent 22.20% of the total disbursements. The remaining 52.23% of disbursements are distributed to food services, community services, extracurricular activities, and capital outlay and debt service.

The Statement of Activities demonstrates the cost of program services and the charges for services and grants offsetting those services. In Table 3 the total cost of services and the net cost of services are presented. The table identifies the cost of services supported by tax revenues and unrestricted State entitlements.

(Table 3)
Governmental Activities

| | Total Cost of Services 2005 | Net Cost of Services 2005 | Total Cost of Services 2004 | Net Cost of Services 2004 | % of Change in Net Cost |
|------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|-------------------------------|
| Instruction | \$20,612,549 | \$19,308,048 | \$22,052,903 | \$20,900,542 | -7.62% |
| Support Services | 16,301,730 | 15,514,588 | 15,209,395 | 14,823,427 | 4.66% |
| Operation of Non-Instruction | 1,439,520 | (237,413) | 1,464,157 | 105,563 | -324.90% |
| Extracurricular Activities | 1,075,673 | 776,233 | 1,111,892 | 836,309 | -7.18% |
| Capital Outlay | 12,241,634 | 12,241,634 | 0 | 0 | 100.00% |
| Debt Service | 22,797,677 | 22,797,677 | 2,327,200 | 2,327,200 | 879.62% |
| Total Expenses | \$74,468,783 | \$70,400,767 | \$42,165,547 | \$38,993,041 | 80.55% |

The District's Funds

Total governmental funds had receipts of \$41,083,147 and disbursements of \$74,210,810. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased (\$2,927,715) as the result of higher than anticipated costs of personnel, benefits, utilities and out-of-district tuition payments to charter schools.

General Fund receipts were less than disbursements by (\$4,013,420) indicating that the General Fund is in a deficit spending situation. Cash basis statements indicate this has occurred the last 5 fiscal years in the District. The District discusses going-concern issues in the Management's Discussion and Analysis in the "Future of Lebanon City School District" section.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

General Fund Budget Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal 2005, the District revised its budget to accommodate changes in expected revenues and planned expenditures.

- The District's ending unencumbered cash balance was (\$5,377,830) below the final budgeted amount. This represents a negative variance of 69.83% of the final budgeted unencumbered cash balance. The negative budget variance was attributed to no apparent budget plan or the allocation of sufficient appropriation on a function basis. Establishing a realistic budget with proper spending controls and budgeting will be the primary goal during fiscal year 2006.

Capital Assets and Debt Administration

Capital Assets

The District does not currently present its capital assets on its financial statements. The District still maintains capital assets in the event the District elects to present its financial statements in accordance with generally accepted accounting principles in future fiscal years.

Debt

As of June 30, 2005, the District had outstanding debt of \$47,919,964 in general obligation bonds issued for new construction and improvements and \$6,297,000 in capital leases for facilities and equipment. The District has an overall debt limit of 9% of its assessed valuation or \$60,249,720 of which \$17,578,221 is available. The un-voted debt limit of the District is .10% of its assessed valuation or \$669,441. The District currently has a bond rating of A- from Standard & Poor and Baa1 from Moody's Investor Services. Further information regarding the District's debt; refer to Note 11 to the basic financial statements.

The Future of Lebanon City School District

As a result of inaccurate financial forecasts and improper transfers and advances of funds by the former treasurer of the District, the District projected a \$4,700,000 deficit for the fiscal year ending June 30, 2006 and has been placed in "Fiscal Caution" by the State Superintendent of Education. The former treasurer resigned and, as part of the agreement that ended her employment, the Board of Education and the former treasurer each agreed not to pursue any legal action against the other party. While no District funds are missing, there are shortages in specific funds which have required the Board of Education to issue additional debt or restructure existing debt in order to address cash-flow concerns.

Specifically, on September 1, 2005, the District issued its \$4,000,000 Tax Anticipation Notes, maturing June 30, 2006 in order to meet general fund obligations prior to receipt of tax collections later in the 2005-06 fiscal year. The 2005 Tax Anticipation Notes are pre-payable at any time without penalty. The Board of Education also discovered that collection of the voted property tax supporting the bonds approved at the May 8, 2001, election were not sufficient to meet the debt service payment due on its School Facilities Construction and Improvement Bonds, Series 2001, dated as of December 1, 2001 on

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2005
Unaudited

December 1, 2005. As a result, the Board of Education current refunded the \$1,370,000 principal amount of the 2001 Bonds due on December 1, 2005, with the proceeds of its \$1,370,000 School Improvement Unlimited Tax General Obligation Bonds Anticipation Notes, Series 2005, dated November 29, 2005, thus spreading the payment of that principal amount over several years and giving the Board of Education flexibility in repaying this amount and avoiding a significant deficit in the District's bond retirement fund.

The Board of Education placed a three-year, \$4,200,000 per year emergency operating tax levy on the ballot at the November 8, 2005, general election for the purpose of avoiding an operating deficit. This tax levy was approved by the voters of the District (5,550 votes for the levy; 5,179 votes against the levy). The additional revenue from this tax levy, when combined with approximately \$600,000 in permanent expense reductions, will stabilize the District's financial situation and avoid the projected June 30, 2006, operating deficit. The Board of Education is issuing notes in the principal amount of \$2,100,000 to be repaid from a portion of the proceeds of the above-referenced emergency operating tax levy. The Board of Education is borrowing approximately half of the maximum amount that it is authorized to borrow in anticipation of this tax levy's proceeds and will use a portion of the proceeds of the Notes, along with additional funds of the District, to retire the outstanding, higher interest rate 2005 Tax Anticipation Notes issued September 1, 2005.

Citizens, community members and taxpayers of the District can obtain a five-year forecast and the accompanying assumptions at www.lebanon.k12.oh.us/finance.

District Contact Information

This financial report is available to all of the citizens, taxpayers, investors and creditors that may have an interest in the finances of the Lebanon City School District. Anyone having questions regarding this report or desiring additional information may contact Cary L. Furniss, Treasurer at Lebanon City Schools, Holbrook Avenue, Lebanon, OH 45036, or by phone at 513-934-5774 or by email at furniss.cary@lebanon.k12.oh.us.

Lebanon City School District, Ohio
Statement of Net Assets - Cash Basis
June 30, 2005

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$5,928,769 |
| Cash and Cash Equivalents with Escrow Agents | <u>417,563</u> |
| Total Assets | <u><u>\$6,346,332</u></u> |
| Net Assets: | |
| Restricted for: | |
| Other Purposes | \$376,857 |
| Debt Service | 5,068,464 |
| Capital Projects | 1,702,264 |
| Unrestricted (Deficit) | <u>(801,253)</u> |
| Total Net Assets | <u><u>\$6,346,332</u></u> |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2005

| | Program Cash Receipts | | | | Net (Disbursements) |
|---|-----------------------|----------------------|--|----------------------------------|------------------------------------|
| | Cash Disbursements | Charges for Services | Operating Grants, Interest and Contributions | Capital Grants and Contributions | Receipts and Changes in Net Assets |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$16,237,715 | \$281,960 | \$115,015 | \$37,905 | (\$15,802,835) |
| Special | 2,908,416 | 0 | 862,056 | 0 | (2,046,360) |
| Adult/Continuing | 7,047 | 7,565 | 0 | 0 | 518 |
| Other | 1,459,371 | 0 | 0 | 0 | (1,459,371) |
| Support Services: | | | | | |
| Pupils | 1,847,754 | 0 | 6,291 | 0 | (1,841,463) |
| Instructional Staff | 2,469,570 | 68,538 | 368,966 | 0 | (2,032,066) |
| Board of Education | 47,427 | 0 | 0 | 0 | (47,427) |
| Administration | 3,120,282 | 0 | 174,186 | 0 | (2,946,096) |
| Fiscal | 807,688 | 0 | 0 | 0 | (807,688) |
| Business | 178,587 | 0 | 0 | 0 | (178,587) |
| Operation and Maintenance of Plant | 3,577,004 | 0 | 15,238 | 0 | (3,561,766) |
| Pupil Transportation | 3,799,372 | 48,698 | 6,751 | 0 | (3,743,923) |
| Central | 454,046 | 60,961 | 37,513 | 0 | (355,572) |
| Operation of Non-Instructional Services | 1,439,520 | 1,028,761 | 648,172 | 0 | 237,413 |
| Extracurricular Activities | 1,075,673 | 299,440 | 0 | 0 | (776,233) |
| Capital Outlay | 12,241,634 | 0 | 0 | 0 | (12,241,634) |
| Debt Service | 24,012,982 | 0 | 0 | 0 | (24,012,982) |
| Total Governmental Activities | \$75,684,088 | \$1,795,923 | \$2,234,188 | \$37,905 | (71,616,072) |

General Receipts:

Property Taxes Levied for:

| | |
|---|-------------------|
| General Purposes | 13,532,871 |
| Debt Service | 2,928,586 |
| Capital Outlay | 924,385 |
| Grants and Entitlements not Restricted to Specific Programs | 18,278,808 |
| Sale of Capital Assets | 20,026 |
| Notes Issued | 28,757,097 |
| Investment Earnings | 531,507 |
| Gifts and Donations | 70,407 |
| Miscellaneous | 748,567 |
| Total General Receipts | 65,792,254 |

Change in Net Assets (5,823,818)

Net Assets Beginning of Year - Restated
(See Note 3) 12,170,150

Net Assets End of Year \$6,346,332

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2005

| | GENERAL | DEBT SERVICE | BUILDING PROJECT | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|--------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| Assets: | | | | | |
| Equity in Pooled Cash and Investments | (\$1,218,816) | \$5,068,464 | \$453,347 | \$1,625,774 | \$5,928,769 |
| Cash and Cash Equivalents with Escrow Agents | 417,563 | 0 | 0 | 0 | 417,563 |
| Total Assets | (\$801,253) | \$5,068,464 | \$453,347 | \$1,625,774 | \$6,346,332 |
| Fund Balances: | | | | | |
| Reserved for Encumbrances | 400,398 | 0 | 296,336 | 1,149,131 | 1,845,865 |
| Unreserved, Undesignated (Deficit), Reported in: | | | | | |
| General Fund | (1,201,651) | 0 | 0 | 0 | (1,201,651) |
| Special Revenue Funds | 0 | 0 | 0 | 260,195 | 260,195 |
| Debt Service Fund | 0 | 5,068,464 | 0 | 0 | 5,068,464 |
| Capital Projects Funds | 0 | 0 | 157,011 | 216,448 | 373,459 |
| Total Fund Balances | (\$801,253) | \$5,068,464 | \$453,347 | \$1,625,774 | \$6,346,332 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

| | GENERAL | DEBT SERVICE | BUILDING PROJECT | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| Receipts: | | | | | |
| Property and Other Taxes | \$13,532,871 | \$2,928,586 | \$0 | \$924,385 | \$17,385,842 |
| Intergovernmental | 17,393,035 | 668,666 | 0 | 2,489,200 | 20,550,901 |
| Interest | 298,196 | 0 | 162,273 | 71,038 | 531,507 |
| Tuition and Fees | 60,961 | 0 | 0 | 221,859 | 282,820 |
| Rent | 21,776 | 0 | 0 | 0 | 21,776 |
| Extracurricular Activities | 0 | 0 | 0 | 312,396 | 312,396 |
| Gifts and Donations | 5,709 | 0 | 0 | 64,698 | 70,407 |
| Charges for Services | 146,092 | 0 | 0 | 970,064 | 1,116,156 |
| Miscellaneous | 476,352 | 0 | 165,414 | 169,576 | 811,342 |
| Total Receipts | 31,934,992 | 3,597,252 | 327,687 | 5,223,216 | 41,083,147 |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 15,611,077 | 0 | 0 | 544,349 | 16,155,426 |
| Special | 1,975,945 | 0 | 0 | 917,939 | 2,893,884 |
| Adult/Continuing | 0 | 0 | 0 | 7,047 | 7,047 |
| Other | 1,452,079 | 0 | 0 | 0 | 1,452,079 |
| Support Services: | | | | | |
| Pupils | 1,830,915 | 0 | 0 | 7,606 | 1,838,521 |
| Instructional Staff | 2,074,184 | 0 | 0 | 383,046 | 2,457,230 |
| Board of Education | 47,427 | 0 | 0 | 0 | 47,427 |
| Administration | 2,836,354 | 72,504 | 465 | 195,368 | 3,104,691 |
| Fiscal | 745,653 | 44,102 | 0 | 13,897 | 803,652 |
| Business | 178,587 | 0 | 0 | 0 | 178,587 |
| Operation and Maintenance of Plant | 3,400,116 | 0 | 0 | 159,025 | 3,559,141 |
| Pupil Transportation | 3,767,109 | 0 | 0 | 13,279 | 3,780,388 |
| Central | 412,714 | 0 | 0 | 39,255 | 451,969 |
| Operation of Non-Instructional Services | 13,260 | 0 | 0 | 1,419,067 | 1,432,327 |
| Extracurricular Activities | 760,974 | 0 | 0 | 309,324 | 1,070,298 |
| Capital Outlay | 1,813 | 0 | 8,187,245 | 3,991,408 | 12,180,466 |
| Debt Service: | | | | | |
| Principal Retirement | 659,725 | 19,171,565 | 0 | 256,710 | 20,088,000 |
| Interest and Fiscal Charges | 88,388 | 3,440,623 | 0 | 86,222 | 3,615,233 |
| Issuance Costs | 92,092 | 217,657 | 0 | 0 | 309,749 |
| Total Disbursements | 35,948,412 | 22,946,451 | 8,187,710 | 8,343,542 | 75,426,115 |
| Excess of Receipts Under Disbursements | (4,013,420) | (19,349,199) | (7,860,023) | (3,120,326) | (34,342,968) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 0 | 20,026 | 20,026 |
| Proceeds from Sale of Notes | 509,655 | 24,997,442 | 3,250,000 | 0 | 28,757,097 |
| Transfers - In | 0 | 5,083 | 0 | 5,083 | 10,166 |
| Advances - In | 4,860,064 | 0 | 2,723,439 | 150,501 | 7,734,004 |
| Transfers - Out | 0 | (5,083) | 0 | (5,083) | (10,166) |
| Advances - Out | (4,284,014) | (579,779) | (2,723,439) | (404,745) | (7,991,977) |
| Total Other Financing Sources (Uses) | 1,085,705 | 24,417,663 | 3,250,000 | (234,218) | 28,519,150 |
| Net Change in Fund Balances | (2,927,715) | 5,068,464 | (4,610,023) | (3,354,544) | (5,823,818) |
| Fund Balances at Beginning of Year - Restated (See Note 3) | 2,126,462 | 0 | 5,063,370 | 4,980,318 | 12,170,150 |
| Fund Balances (Deficit) at End of Year | (\$801,253) | \$5,068,464 | \$453,347 | \$1,625,774 | \$6,346,332 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|---|-----------------------|--------------------|----------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property and Other Taxes | \$0 | \$14,443,937 | \$13,532,871 | (\$911,066) |
| Intergovernmental | 670,552 | 18,063,866 | 17,793,199 | (270,667) |
| Interest | 0 | 150,000 | 127,301 | (22,699) |
| Tuition and Fees | 0 | 74,549 | 60,961 | (13,588) |
| Gifts and Donations | 0 | 5,709 | 5,709 | 0 |
| Charges for Services | 0 | 140,639 | 146,092 | 5,453 |
| Rent | 0 | 17,237 | 21,776 | 4,539 |
| Miscellaneous | 0 | 69,570 | 415,789 | 346,219 |
| Total Revenues | 670,552 | 32,965,507 | 32,103,698 | (861,809) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 29,074,084 | 29,320,986 | 15,644,310 | 13,676,676 |
| Special | 97,770 | 117,552 | 1,981,065 | (1,863,513) |
| Other | 1,068,431 | 1,068,431 | 1,452,079 | (383,648) |
| Support Services: | | | | |
| Pupils | 244,572 | 281,885 | 1,836,783 | (1,554,898) |
| Instructional Staff | 881,586 | 832,894 | 2,080,496 | (1,247,602) |
| Board of Education | 46,450 | 43,450 | 47,487 | (4,037) |
| Administration | 346,626 | 299,628 | 2,838,213 | (2,538,585) |
| Fiscal | 342,153 | 342,002 | 749,718 | (407,716) |
| Business | 17,436 | 16,735 | 178,954 | (162,219) |
| Operation and Maintenance of Plant | 1,404,085 | 1,410,730 | 3,451,589 | (2,040,859) |
| Pupil Transportation | 1,511,306 | 1,509,335 | 3,767,109 | (2,257,774) |
| Central | 168,881 | 309,979 | 375,226 | (65,247) |
| Operation of Non-Instructional Services | 13,935 | 13,936 | 13,260 | 676 |
| Extracurricular Activities | 8,635 | 177,808 | 761,014 | (583,206) |
| Capital Outlay | 1,854 | 1,813 | 1,813 | 0 |
| Debt Service: | | | | |
| Principal | 0 | 0 | 659,725 | (659,725) |
| Interest | 0 | 0 | 88,388 | (88,388) |
| Total Expenditures | 35,227,804 | 35,747,164 | 35,927,229 | (180,065) |
| Excess of Revenues Under Expenditures | (34,557,252) | (2,781,657) | (3,823,531) | (1,041,874) |
| Other Financing Sources (Uses): | | | | |
| Refund of Prior Year Expenditures | 0 | 60,563 | 60,563 | 0 |
| Refund of Prior Year Receipts | 0 | (18,096) | (733,787) | (715,691) |
| Advances - In | 0 | 4,896,315 | 4,860,064 | (36,251) |
| Advances - Out | (700,000) | (700,000) | (4,284,014) | (3,584,014) |
| Total Other Financing Sources (Uses) | (700,000) | 4,238,782 | (97,174) | (4,335,956) |
| Net Change in Fund Balances | (35,257,252) | 1,457,125 | (3,920,705) | (5,377,830) |
| Fund Balances at Beginning of Year | 1,512,724 | 1,512,724 | 1,512,724 | 0 |
| Prior Year Encumbrances Appropriated | 785,580 | 785,580 | 785,580 | 0 |
| Fund Balances (Deficit) at End of Year | (\$32,958,948) | \$3,755,429 | (\$1,622,401) | (\$5,377,830) |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Cash Receipts, Disbursements and Changes in
Fund Net Assets - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

| | Governmental Activities - Employee Benefits Self-Insurance Internal Service Fund |
|-------------------------------|---|
| Operating Receipts: | |
| Charges for Services | \$8,443 |
| Operating Disbursements: | |
| Purchased Services | 34,431 |
| Claims | 231,984 |
| Total Operating Disbursements | 266,415 |
| Loss before Advances | (257,972) |
| Advances - In | 1,410,074 |
| Advances - Out | (1,152,102) |
| Net Assets End of Year | \$0 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2005

| | Private Purpose Trust | Agency |
|--|--------------------------|----------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$181,975 | \$91,337 |
| Net Assets: | | |
| Restricted for Students | 0 | 91,337 |
| Held in Trust for Scholarships | 181,975 | 0 |
| Total Net Assets | \$181,975 | \$91,337 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005

| | Private Purpose Trust |
|--|-----------------------|
| Additions: | |
| Interest | \$8,409 |
| Gifts and Donations | 13,051 |
| | 21,460 |
| Deductions: | |
| Payments in Accordance with Trust Agreements | 15,552 |
| | 5,908 |
| Change in Net Assets | 176,067 |
| Net Assets Beginning of Year | 176,067 |
| Net Assets End of Year | \$181,975 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by State and/or federal agencies. It is staffed by 226 non-certified employees, 322 certified full time teaching personnel, who provide services to 5,378 students and other community members. The District currently operates eight instructional/support facilities.

Reporting Entity

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

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

The District participates in four jointly governed organizations and one insurance purchasing pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), Warren County Career Center and Ohio School Board's Association Group Rating Program (GRP), respectively. These organizations are presented in Note 13 to the basic financial statements.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in section C of Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities of the District that are governmental and those that are business-type. The District, however, does not have any activities, which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

B. Fund Accounting

The funds of the District are divided into three categories: governmental, proprietary and fiduciary.

Governmental: The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants) and other nonexchange transactions as governmental funds. The following are the District's major governmental funds:

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

Debt Service Fund - The Debt Service Fund accounts for accumulation of resources to be used for the payment of short-term and long-term general obligation debt principal and interest.

Building Fund - The Building Fund (a capital projects fund) accounts for all transactions related to the construction of the new school buildings.

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

Proprietary Fund: Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

Internal Service Fund - The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The only internal service fund of the District accounts for its employee benefits self-insurance fund for medical insurance coverage. As of June 30, 2005 this fund had no assets nor net assets so no Statement of Fund Net Assets has been presented.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Types: Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary funds are a private purpose trust fund and an agency fund. The Private Purpose Trust Fund accounts for college scholarship programs for students. The District's Agency Fund accounts for those student activities, which consist of a student body, student president, student treasurer and faculty advisor.

C. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The appropriation resolution is subject to amendment by the board throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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 including all supplemental appropriations. Prior to fiscal year-end, the District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

E. Cash and Investments

All cash received by the District is pooled in central bank and investment accounts. Monies from all funds are included in these accounts and individual fund integrity is maintained in District records. Interest in the pool is presented as "Equity in Pooled Cash and Investments".

During fiscal year 2005, the District's investments included a repurchase agreement, money market funds, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Notes, a Federal Farm Credit Bank Bond, STAR Ohio and certificates of deposit. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 were \$298,196, which included \$106,116 assigned from other District funds.

F. Interfund Receivables/Payables

The District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

G. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, and federal and State grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide statement of net assets reports \$7,147,585 of restricted net assets, of which \$496,650 is restricted by enabling legislation.

I. Fund Balance Reserves

The District reserves any portion of fund balance which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

A. Change in Basis of Accounting

For 2005, the District ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the District as they were previously reported. The effects on net assets of governmental activities are also presented.

| | General | Debt Service | Building Project | Other Governmental | Total Governmental |
|-------------------------------------|--------------|-----------------|---------------------|-----------------------|-----------------------|
| Fund Balance June 30, 2004 | \$2,287,494 | (\$383,336) | (\$2,818,171) | \$4,343,056 | \$3,429,043 |
| Eliminate Asset Accruals | (15,673,416) | (2,896,707) | 0 | (1,208,246) | (19,778,369) |
| Eliminate Liability Accruals | 15,512,384 | 3,280,043 | 7,881,541 | 1,845,508 | 28,519,476 |
| Adjusted Fund Balance June 30, 2004 | \$2,126,462 | \$0 | \$5,063,370 | \$4,980,318 | \$12,170,150 |

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY
(continued)

| | |
|--|--------------|
| Governmental Activities Net Assets June 30, 2004 | \$11,151,187 |
| Eliminate Government-Wide Financial Statement Adjustments: | |
| Cash and Cash Equivalents | 22 |
| Inventory of Supplies and Materials | (19,026) |
| Accrued Interest Receivable | (6,286) |
| Accounts Receivable | (31,322) |
| Intergovernmental Receivable | (246,982) |
| Property Taxes Receivable | (17,338,133) |
| Nondeprciable Capital Assets | (28,247,326) |
| Depreciable Capital Assets, Net | (30,729,584) |
| Accounts Payable | 143,835 |
| Accrued Wages and Benefits Payable | 2,486,352 |
| Contracts Payable | 2,198,036 |
| Intergovernmental Payable | 941,727 |
| Accrued Interest Payable | 263,058 |
| Compensated Absences | 174,922 |
| Matured Compensated Absences | 25,532 |
| Retainage Payable | 797,303 |
| Deferred Revenue | 15,569,378 |
| Claims Payable | 656,227 |
| Debt | 54,381,230 |
| Adjusted Governmental Activities Net Assets June 30, 2004 | \$12,170,150 |

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget (non-GAAP basis) and actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis), unrecorded cash which represents amounts received but not included on the budgetary basis, and the change in fair value of investments which is not included as revenue on the budgetary basis. Unrecorded cash and the change in fair value of investments are included as revenue on the modified cash basis statement of cash receipts, disbursements and changes in fund balances.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

| | |
|--|----------------------|
| Cash Basis | (\$2,927,715) |
| Net Adjustment for Prior Year Revenue Accruals | (109,491) |
| Net Adjustment for Prior Year Expenditure Accruals | (312,206) |
| Fair Value of Investments for FY 04 | (171,841) |
| Fair Value of Investments for FY 05 | 946 |
| Adjustment for Encumbrances | <u>(400,398)</u> |
| Budget Basis | <u>(\$3,920,705)</u> |

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected in 2005 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.

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Warren County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - PROPERTY TAXES (continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | <u>2004 Second- Half Collections</u> | | <u>2005 First- Half Collections</u> | |
|---|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential And Other Real Estate | \$603,948,540 | 90.22% | \$603,948,540 | 90.22% |
| Public Utility | 22,928,230 | 3.42% | 22,928,230 | 3.42 |
| Tangible Personal Property | 42,564,570 | 6.36% | 42,564,570 | 6.36 |
| Total Assessed Value | \$669,441,340 | 100.00% | \$669,441,340 | 100.00% |
| Tax rate per \$1,000 of assessed valuation | \$60.13 | | \$56.61 | |

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board 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. The District did not have any inactive deposits for the period ending June 30, 2005.

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 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); 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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$748,586 of the District's bank balance of \$2,876,447 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial trust department or agency, but not in the Districts name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC. Also, deposits are subject to custodial credit risk if not covered by FDIC and uncollateralized, collateralized with securities held by pledging institution, or collateralized with securities but not in the Districts name.

The District has no deposit policy for custodial 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 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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

B. Investments

As of June 30, 2005, the District had the following investments. All investments are in an internal investment pool.

| <u>Investment Type (Cost)</u> | <u>Fair Value</u> | <u>Investment Maturities (in years)</u> | | |
|---|---------------------------|---|------------------------|---------------------------|
| | | <u>Less than 1</u> | <u>1-2</u> | <u>Greater than 2</u> |
| Money Market Funds (\$49,963) | \$49,963 | \$49,963 | \$0 | \$0 |
| Repurchase Agreements (\$740,326) | 740,326 | 740,326 | 0 | 0 |
| Federal National Mortgage Association Notes (\$2,843,000) | 2,765,175 | 0 | 0 | 2,765,175 |
| U.S. Treasury Notes (\$98,407) | 98,407 | 0 | 98,407 | 0 |
| STAR Ohio (\$350) | 350 | 350 | 0 | 0 |
| Total Investments | <u>\$3,654,221</u> | <u>\$790,639</u> | <u>\$98,407</u> | <u>\$2,765,175</u> |

Interest Rate Risk: The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: The Federal National Mortgage Association Notes carry a rating of aaA by Moody's. STAR Ohio's rating as of June 30, 2005 from Standard and Poor's is AAA. The District's investment policy limits investments to those authorized by State statute.

Custodial Credit Risk: The District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the district at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the District's name.

Concentration of Credit Risk: The District places no limit on the amount it may invest in any one issuer. The District's investments in the money market funds, repurchase agreements, Federal National Mortgage Association Notes, represents 19 percent and 69 percent respectively, of the District's total investments.

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance for general liability insurance with a \$1,000,000 single occurrence limit and a \$5,000,000 aggregate with a \$10,000 deductible. Property is protected by Indiana Insurance and holds a \$1,000 deductible.

The maintenance vehicles and grounds equipment are insured by Indiana Insurance with a \$500 deductible and a \$1,000,000 limit per occurrence.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT (continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from prior years.

B. Self - Insurance

The District had a self-funded medical benefit plan that was discontinued as of June 1, 2004. The activity of this plan is recorded in an internal service fund to account for and finance its uninsured risks of loss in this plan. The District was responsible for all costs associated with claims, including administrative fees to the third-party administrator. The third party administrator, Medical Mutual, reviewed all claims which the District then paid. The activity for fiscal year 2005 represented run-out claim activity. The District moved to a fully insured plan with Anthem, Inc., on June 1, 2004, to reduce its risk and to lower its cost.

The District paid into the employee benefits self-insurance fund a premium for each employee based upon single or family coverage. It is estimated as of June 30, 2005, the District has fulfilled all of its contractual obligations for medical claims.

C. Workers' Compensation

For fiscal year 2005, the District participated in the Ohio School Board's Association Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, 2003 were \$2,489,904, \$2,264,377, and \$2,166,619, respectively; 85 percent has been contributed for 2005 and 100 percent has been contributed for 2004 & 2003.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$777,415, \$640,542, and \$597,245, respectively; 85 percent of this amount has been contributed for 2005 and the full amount has been contributed for 2004 & 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, there were no Board members that elected Social Security.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$177,850 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2005 fiscal year, District paid \$111,059 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 10 – SHORT-TERM OBLIGATIONS

During fiscal year 2005, the School District paid off the \$5,000,000 bond anticipation note and issued a new \$5,000,000 bond anticipation note in its place. This note is backed by the full faith and credit of the School District.

As of June 30, 2005, the School District had the following short-term obligation outstanding:

| | Amount | | | | Amount |
|--------------------------------|---------------|-------------|-------------|--|---------------|
| | Outstanding | | | | Outstanding |
| | June 30, 2004 | Additions | Deductions | | June 30, 2005 |
| Building Fund: | | | | | |
| Bond Anticipation Note – 1.77% | \$5,000,000 | \$5,000,000 | \$5,000,000 | | \$5,000,000 |

The note was issued for the purpose of constructing the new high school and primary school buildings.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2005 were as follows:

| | Restated Amount Outstanding 6/30/04 | Additions | Deductions | Amount Outstanding 6/30/05 |
|---|--|---------------------|---------------------|----------------------------------|
| Governmental Activities | | | | |
| General Obligation Bonds: | | | | |
| Ohio School Facilities Construction And Improvement Bonds – 2002, 5.11% | \$39,130,000 | \$0 | \$14,205,000 | \$24,925,000 |
| New School Construction Bond – 2002, 5.10% | 4,885,000 | 0 | 120,000 | 4,765,000 |
| June 5, 2005 Refunding of General Obligation Bonds | 0 | 18,049,965 | 0 | 18,049,965 |
| House Bill 264 – 1995, 5.25% | 350,000 | 0 | 170,000 | 180,000 |
| COPS Capital Lease | 0 | 3,740,000 | 330,000 | 3,410,000 |
| OASBO Pool Capital Lease | 3,150,000 | 0 | 263,000 | 2,887,000 |
| Total Governmental Activities Long – Term Liabilities | <u>\$47,515,000</u> | <u>\$21,789,965</u> | <u>\$15,088,000</u> | <u>\$54,216,965</u> |

General Obligation Bonds

In fiscal year 2002, the School District issued \$40,000,000 and \$5,000,000 in voted general obligation bonds for the purpose of constructing a new high school and elementary school. The bonds were issued for a 28 year period with a final maturity date of June 1, 2030. These bonds were partially refunded during fiscal year 2005 with a final maturity date of December 1, 2029.

In fiscal year 1995, the School District issued an Energy Conservation Bond for the purposes of energy conservation measures in all school buildings. The bond has a final maturity date of December 1, 2006.

All general obligation debt is supported by the full faith and credit of the School District. The energy conservation bond will be paid from the general fund while the school construction bonds will be paid from the debt service fund. At June 30, 2005, the School District's overall legal debt limitation was \$17,578,221, the unvoted debt margin was \$669,441 and the energy conservation debt margin was \$362,247.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2005, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|---------------------|---------------------|
| 2006 | \$1,625,000 | \$2,152,819 | \$3,777,819 |
| 2007 | 1,035,000 | 2,101,303 | 3,136,303 |
| 2008 | 1,140,000 | 2,059,288 | 3,199,288 |
| 2009 | 1,190,000 | 2,013,136 | 3,203,136 |
| 2010 | 1,240,000 | 1,963,859 | 3,203,859 |
| 2011-2015 | 6,000,199 | 10,844,409 | 16,844,607 |
| 2016-2020 | 8,614,766 | 8,779,638 | 17,394,404 |
| 2021-2025 | 11,985,000 | 5,297,142 | 17,282,142 |
| 2026-2030 | 15,090,000 | 1,911,162 | 17,001,162 |
| Total | <u>\$47,919,965</u> | <u>\$37,122,756</u> | <u>\$85,042,720</u> |

NOTE 12 – LEASES

The School District leases buildings, vehicles and other equipment under noncancelable leases. The School District disbursed \$342,932 to pay lease costs for the year ended June 30, 2005. Future lease payments are as follows:

| Fiscal Year Ending June 30, | Total Payments |
|---|--------------------|
| 2006 | \$804,382 |
| 2007 | 806,593 |
| 2008 | 803,579 |
| 2009 | 803,955 |
| 2010 | 803,204 |
| 2011-2014 | 3,629,431 |
| Total | 7,651,144 |
| Less: Amount Representing Interest | (1,354,144) |
| Present Value of Net Minimum Lease Payments | <u>\$6,297,000</u> |

In fiscal year 2005, the School District issued \$3,740,000 in Certificates of Participation (COPS). The COPS were issued for the purpose of constructing new school buildings and related facilities, renovating and constructing additions to existing school buildings and facilities, furnishing those buildings, landscaping and improving the sites and acquiring land and interests necessary.

During fiscal year 2004, the District entered into a lease-purchase agreement for \$3,150,000 for the construction/improvement of the transportation facilities.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Southwest Ohio Computer Association

The District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The District paid SWOCA \$86,137 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2005, the District paid \$2,238 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the District paid \$80 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL
(continued)

Warren County Career Center

The Warren County Career Center is a distinct political subdivision of the State of Ohio. It is operated under the direction of a Board consisting of one of the elected board members from each of the participating school districts, including one member from the Lebanon Local School District Board of Education. Warren County Career Center was formed for the purpose of providing vocational education opportunities to the students of the District. Financial information can be obtained from Karen Royer, who serves as treasurer, at 3525 State Route 48, Lebanon, Ohio 45036.

B. Insurance Purchasing Pool

Ohio School Board's Association Group Rating Program

The School District participates in the Ohio School Board's Association Group Rating Program (GRP) for workers' compensation, an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Board of directors. The Executive Director of the GRP, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 14 – SET- ASIDE CALCULATION

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

The following cash basis information describes the change in the fiscal year-end set-aside amounts for budget stabilization, textbooks and instructional materials, and capital improvements. Disclosure of this information is required by State statute.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – SET- ASIDE CALCULATION (continued)

| | <u>Budget Stabilization</u> | <u>Textbooks/Instructional Materials</u> | <u>Capital Improvements</u> |
|---|---------------------------------|--|---------------------------------|
| Set-aside Reserve Balance as of June 30, 2004 | \$83,747 | \$0 | \$0 |
| Current Year Set-aside Requirement | 0 | 660,134 | 660,134 |
| Carryover from Prior Year | 0 | (326,997) | (723,479) |
| Qualifying Disbursements | 0 | (704,687) | (134,941) |
| Current Year Offsets | (83,747) | 0 | (954,258) |
| Total | <u>\$0</u> | <u>(\$371,550)</u> | <u>(\$1,152,544)</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$0</u> | <u>(\$371,550)</u> | <u>\$0</u> |
| Set-aside Reserve Balance as of June 30, 2005 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks/instructional materials and the capital improvements amount below zero. This extra amount of offsets for textbooks/instructional materials may only be used to reduce the set-aside requirements in future fiscal years. The reserve for budget stabilization was used to offset the deficit in the general fund at fiscal year-end.

NOTE 15 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

The District was a party to legal proceedings at June 30, 2005. The District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – SUBSEQUENT EVENTS

On September 1, 2005, the District issued its \$4,000,000 Tax Anticipation Notes, maturing June 30, 2006 in order to meet general fund obligations prior to receipt of tax collections later in the 2005-06 fiscal year. The 2005 Tax Anticipation Notes are pre-payable at any time without penalty. The Board of Education also discovered that collection of the voted property tax supporting the bonds approved at the May 8, 2001, election were not sufficient to meet the debt service payment due on its School Facilities Construction and Improvement Bonds, Series 2001, dated as of December 1, 2001 on December 1, 2005. As a result, the Board of Education current refunded the \$1,370,000 principal amount of the 2001 Bonds due on December 1, 2005, with the proceeds of its \$1,370,000 School Improvement Unlimited Tax General Obligation Bonds Anticipation Notes, Series 2005, dated November 29, 2005, thus spreading the payment of that principal amount over several years. This gave the Board of Education not only flexibility in repaying this amount and avoiding a significant deficit in the District's bond retirement fund, but it also eliminated the need to increase the tax rate to District residents and businesses.

The Board of Education placed a three-year, \$4,200,000 per year emergency operating tax levy on the ballot at the November 8, 2005, general election for the purpose of avoiding an operating deficit. This tax levy was approved by the voters of the District (5,550 votes for the levy; 5,179 votes against the levy). The Board of Education is issuing notes in the principal amount of \$2,100,000 to be repaid from a portion of the proceeds of the above-referenced emergency operating tax levy. The Board of Education is borrowing approximately half of the maximum amount that it is authorized to borrow in anticipation of this tax levy's proceeds and will use a portion of the proceeds of the Notes, along with additional funds of the District, to retire the outstanding, higher interest rate 2005 Tax Anticipation Notes issued September 1, 2005.

LEBANON CITY SCHOOL DISTRICT

Schedule of Prior Audit Findings

Year Ended June 30, 2005

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major federal program were reported in the prior year.

LEBANON CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

| <u>Federal Grantor/Program Title</u> | <u>Pass Through Entity Number</u> | <u>Federal CFDA Number</u> | <u>Federal Revenues</u> | <u>Federal Expenditures</u> |
|---|---|------------------------------------|-----------------------------|---------------------------------|
| <u>U.S. Department of Agriculture:</u> | | | | |
| <i>(Passed through Ohio Department of Education)</i> | | | | |
| Nutrition Cluster: | | | | |
| Food Donation | N/A | 10.550 | \$ 39,916 | 39,916 |
| School Breakfast Program | 05PU | 10.553 | 23,049 | 23,049 |
| National School Lunch Program | LLP4 | 10.555 | 279,179 | 279,179 |
| Nutrition Cluster Total | | | <u>342,144</u> | <u>342,144</u> |
| Emergency Food Assistance Program | | 10.569 | 65,225 | 38,679 |
| Total U.S. Department of Agriculture | | | <u>407,369</u> | <u>380,823</u> |
| <u>U.S. Department of Education:</u> | | | | |
| <i>(Passed through Ohio Department of Education)</i> | | | | |
| Title I Grants to Local Educational Agencies | C1S1 | 84.010 | 444,866 | 482,566 |
| Title I Program for Neglected & Delinquent Children | C1SD | 84.013 | 56,489 | 56,489 |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 6BSF | 84.027 | 812,744 | 794,966 |
| Special Education - Preschool Grants | PGS1/PGD7 | 84.173 | 6,291 | 6,291 |
| Special Education Cluster Total | | | <u>819,035</u> | <u>801,257</u> |
| Safe and Drug-Free Schools and Communities - State Grants | DRS1 | 84.186 | 18,649 | 19,250 |
| State Grants for Innovative Programs | C2S1 | 84.298 | 32,549 | 34,009 |
| Education Technology State Grants | TJS1 | 84.318 | 18,209 | 14,879 |
| Title III - English Language Acquisition Grants | TJS1 | 84.365 | 4,178 | 4,178 |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | 165,737 | 154,135 |
| Total U.S. Department of Education | | | 1,559,712 | 1,566,763 |
| <u>Architectural and Transportation Barriers Compliance Board</u> | | | | |
| Architectural and Transportation Compliance Board | n/a | 88.001 | - | 1,565 |
| Total Architectural and Transportation Compliance Board | | | - | 1,565 |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Disaster Grants - Public Assistance | n/a | 97.036 | 10,430 | 10,430 |
| Total Disaster Grants - Public Assistance | | | <u>10,430</u> | <u>10,430</u> |
| Total Federal Awards | | | \$ <u>1,977,511</u> | <u>1,959,581</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Lebanon City School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lebanon City School District (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 31, 2006, wherein we noted that the School District has prepared its financial statements using a modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2005-2 through 2005-15.

We also noted certain matters that we reported to management of the School District in a separate letter dated January 31, 2006.

This report is intended solely for the information of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
January 31, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Lebanon City School District:

Compliance

We have audited the compliance of Lebanon City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Lebanon City School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lebanon City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Lebanon City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Lebanon City School District is responsible for establishing and maintaining effective control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lebanon City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lebanon City School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulation, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
January 31, 2006

LEBANON CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

| | |
|--|-------------|
| Type of report issued on financial statements: | unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | none |
| Reportable condition(s) identified not considered to be material weakness(es)? | yes |
| Noncompliance material to financial statements noted? | yes |

Federal Awards

| | |
|---|-------------|
| Internal Control over major programs: | |
| Material weakness(es) identified? | no |
| Reportable condition(s) identified not considered to be material weakness(es)? | yes |
| Type of auditors' report issued on compliance for major programs: | unqualified |
| Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)? | yes |
| Identification of major programs: | |
| <i>Special Education Cluster (CFDA's 84.027 and 84.173)</i> | |
| Dollar threshold to distinguish between Type A and Type B Programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | yes |

Section II - Financial Statement Findings

REPORTABLE CONDITION

2005-1 Non-payroll Cash Disbursements

As part of our testing of internal control over non-payroll cash disbursements, we selected a sample of sixty (60) cash disbursements from throughout the fiscal year. Our test indicated that eighteen (18) items had one or more of the following deviations from the School District's stated internal control procedures:

- No requisition authorized by the building principal or appropriate supervisory personnel.
- No requisition present
- No purchase order present
- No requisition authorized by the Assistant Superintendent.
- Invoice/purchase order or requisition was not marked "ok to pay", initialed or signed by the purchaser
- The invoice date was prior to the purchase order date
- Requisition approved by individual receiving reimbursement

Deviations from internal control policy procedures could result in the misappropriation of public funds or overpayment to vendors. We recommend the School District review its internal control procedures over non-payroll cash disbursements and take steps to ensure that internal controls are properly performed prior to the disbursement of cash.

NONCOMPLIANCE

2005-2 Petty Cash

Ohio Revised Code, Section 3313.291, states that a Board of Education can adopt a resolution establishing a petty cash account from which a designated district official may make a disbursement by check or debit card for purchases made within the district. The resolution establishing the petty cash account must; specify the maximum amount of money placed in the account, designate the authorized district officials who may draw moneys from the account or require the school district treasurer to designate such officials and establish procedures for replenishing the account. The School District had several petty cash accounts, but a board approved resolution could not be located by the School District.

2005-3 Investment Policy:

Ohio Revised Code Section 134.14 requires that the investment policy must be signed by all entities conducting investment business with the District, all brokers, dealers and financial institutions who give advice or make investment recommendations, and all brokers, dealers and financial institutions executing investment transactions. The School District does not have copies of signed investment policies with any of the entities conducting investment business with the School District.

2005-4 Filing of Financial Reports:

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38. The School District did not publish this notice stating that financial statements were available for public inspections.

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with the cash basis of accounting. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

2005-5 Security for Repayment of Public Deposits:

Ohio Rev. Code Sections 135.18 requires that the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities. The School District had several accounts that amounted to \$748,586 in funds for which the District did not obtain Pooled Collateral Statements.

2005-6 Transfer of Funds:

Ohio Rev. Code Sections 5705.14, 5705.15, & 5705.16 states that money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority. The School District transferred \$169,173 from the General Fund to an Internal Services fund without proper board authorization.

2005-7 Advances:

Auditor of State Bulletin 97-003 (Covering Several ORC Sections) states that: "In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established." Auditor of State Bulletin 1997-003 also states that "Advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include:

- a. A specific statement that the transaction is an advance of cash, and
- b. An indication of the money (fund) from which it is expected that repayment will be made"

Since the Debt Service Fund is restricted for debt service payments, the advance from the Debt Service Fund to the Self Insurance Fund was not allowed, and it was also noted that this advance was not approved. In addition, \$2,873,940 of advances between funds were made during fiscal year 2005 but were not approved by a formal resolution.

2005-8 Certificate of Estimated Resources:

Auditor of State Bulletin 1997-003 states that when a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, an adjustment is required to the total resources available for expenditure in the creditor and debtor funds. The unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the fiscal year to produce the "carryover balance available for appropriation." Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the fiscal year to produce "carryover balance available for appropriation." This adjustment is made on the "certificate of the total amount from all sources available for expenditures, and balances" filed with the County Budget Commission pursuant to Section 5705.36 of the Revised Code. Several advances were made for repayment to the General Fund for advance made at the end of the previous year, and it was noted that the School District had not adjusted the "certificate of the total amount from all resources available for expenditures and balances" for the advances outstanding as of June 30, 2004.

2005-9 Amended Certificates:

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

As of July 31, 2004 the General Fund had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county. It was also noted as of May 31, 2005 the General Fund and Bond Retirement Fund had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county. The District could not locate the detail for amount of estimated resources filed with the county for the Capital Projects, Special Revenue, Enterprise, or Fiduciary funds so these funds could not be tested for compliance.

2005-10 Restrictions on the Expenditure of Money:

Per Ohio Revised Code Section 5705.41(B), no subdivision is to expend money unless it has been appropriated. The School district had several instances in which expenditures in various funds exceeded appropriations for that fund.

2005-11 Negative Fund Balances

Ohio Revised Code Section 5705.10 requires that money paid into any fund shall be used only for the purpose for which such fund was established. Throughout the year and at year-end, various funds had negative cash fund balances. These fund balances indicate that cash from other funds was used to pay the obligations of these funds.

2005-12 Unresolved Findings for Recovery

Ohio Revised Code Section 9.24(A), (B),(C),(D),(E) requires that school districts not award a contract to an individual, corporation, business trust, partnership, and association against whom a finding for recovery has been issued by the auditor of state, if the finding for recovery is unresolved. During the current year audit we noted that the District did not have adequate procedures in place to check the Auditor of State web site for certain contracts to ensure contracts are not awarded to an organization with an unresolved finding for recovery.

2005-13 412 Certificates

ORC Section 5705.412 requires the Treasurer, Superintendent and the President of the Board of Education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal year equal to the number of days instruction was held or is scheduled for the current fiscal year. Section 5705.412 certificates should be executed for: appropriation measures (except for temporary measures); increased salary or wage schedules; any other "qualifying contracts". A "qualifying contract" is an agreement for the expenditure of money from funds included in the District's 5 year forecast will exceed the lesser of \$500,000 or 1% of the general fund's total most recent certificate of estimated revenues. The School District issued and approved 412 Certificates along with the approval of the Annual Appropriations and salary schedules, but there was not a 412 certificate attached to the transportation facility contract tested.

2005-14 Retirement of Debt

Ohio Rev. Code Sections 133.10, 133.22, 133.24, 321.34, 5705.03, 5705.05, 5705.09 and 5705.10; 1981 Op. Atty Gen. No. 81-035 states that all funds in the Debt Service Fund are restricted to be used by debt covenants relating to bonded debt. During the current year audit we notes that the District had made payments for the energy conservation loan out of the Debt Service Fund instead of the capital account where the funds were initially placed, or from the General Fund as permitted by the Ohio Revised Code. The District also paid principal and interest in the amount of \$390,432 for the certificate of participation from the Debt Service Fund without transferring funds from the General Fund to cover the payment made out of the debt service account. Early in fiscal year 2006 the District transferred funds to cover these payments, but we recommend the District develop and implement procedures to ensure the funds are transferred in from the General Fund to the Debt Service Fund before the payments are made to avoid future compliance violations.

Section III - Federal Award Findings and Questioned Costs

2005-15 Non-payroll Cash Disbursements

The reportable condition described at Finding 2005-1 is applicable to the School District's major federal program.



**Auditor of State
Betty Montgomery**

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LEBANON CITY SCHOOL DISTRICT

WARREN 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
JULY 06, 2006**