

LEBANON CITY SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2007

With

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Education
Lebanon City School District
700 Holbrook Ave
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, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 24, 2009

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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, 2007, 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 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, 2007, 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 17, 2008 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 10 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 conducted 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 17, 2008

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
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, 2007. 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 increased by \$3,744,125 or 125.96%. The General Fund reported a fund balance of \$3,542,846.
- ❑ General revenues accounted for \$45,848,832 in revenue or 91.32% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,357,347 or 8.68% of total revenues of \$50,206,179.
- ❑ The District had \$46,462,054 in cash disbursements to governmental activities; only \$4,357,347 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes and entitlements) of \$45,848,832 were adequate to provide these services.
- ❑ Among major funds, the general fund had \$39,915,860 in receipts and \$36,895,192 in disbursements. The general fund's balance increased \$3,067,695 from fiscal year 2006.

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, 2007
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 2007, 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, 2007
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 – All 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 an accounting method called cash accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or 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.

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 2007 and 2006:

(Table 1)
 (Table 1)
Net Assets

| | Governmental Activities 2007 | 2006 (restated) | % of Change |
|------------------------------------|---------------------------------|--------------------|----------------|
| Assets | | | |
| Cash and Investments | \$6,716,573 | \$2,972,448 | 125.96% |
| Total Assets | <u>\$6,716,573</u> | <u>\$2,972,448</u> | <u>125.96%</u> |
| Net Assets Invested in: | | | |
| Restricted | | | |
| Other Purposes | \$653,241 | \$591,803 | 10.38% |
| Debt Service | 1,533,473 | 1,129,780 | 35.73% |
| Capital Projects | 987,013 | 775,714 | 27.24% |
| Unrestricted | <u>3,542,846</u> | <u>475,151</u> | <u>645.63%</u> |
| Total Net Assets | <u>\$6,716,573</u> | <u>\$2,972,448</u> | <u>125.96%</u> |

**Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
Unaudited**

Total assets increased by \$3,744,125. The increase can be attributed to the implementation of the budget cuts prior to and during fiscal year 2007.

Table 2 demonstrates the changes in net assets for fiscal year 2007. The District experienced a 3.61% decrease in total general receipts during 2007. This is attributable to the proceeds from the sale of notes being lower in 2007 than in 2006.

(Table 2)
Change in Net Assets

| | Governmental Activities | | % of |
|--|-------------------------|--------------|----------|
| | 2007 | 2006 | Change |
| Revenues | | | |
| Program Receipts: | | | |
| Charges for Services | \$1,844,601 | \$2,043,566 | -9.74% |
| Operating Grants, Interest and Contributions | 2,480,520 | 2,447,678 | 1.34% |
| Capital Grants and Contributions | 32,226 | 0 | 100.00% |
| Total Program Receipts | 4,357,347 | 4,491,244 | -2.98% |
| General Receipts: | | | |
| Property Taxes | | | |
| General Purposes | 18,879,310 | 16,125,944 | 17.07% |
| Debt Service | 3,374,136 | 3,084,595 | 9.39% |
| Capital Projects | 977,496 | 970,485 | 0.72% |
| Grants and Entitlements not Restricted to | | | |
| Specific Programs | 20,826,923 | 19,687,049 | 5.79% |
| Revenue in Lieu of Taxes | 96,360 | 0 | 100.00% |
| Sale of Capital Assets | 0 | 3,110 | -100.00% |
| Notes Issued | 850,000 | 7,470,000 | -88.62% |
| Accrued Interest on Bonds and Notes Issued | 0 | 7,882 | -100.00% |
| Investment Earnings | 366,145 | (96,682) | 478.71% |
| Gifts and Donations | 97,117 | 71,675 | 35.50% |
| Miscellaneous | 381,345 | 241,269 | 58.06% |
| Total General Receipts | 45,848,832 | 47,565,327 | -3.61% |
| Total All Receipts | \$50,206,179 | \$52,056,571 | -3.55% |

(Continued)

Expenditures decreased by \$8,935,181 or 16.13% from 2006. The decrease can be attributed to budget cuts that were instituted prior to and during fiscal year 2007 including the elimination of the business manager position, the elimination of some instructional leader positions, as well as the reduction in debt service payments. There was a \$4,000,000 note issue that was both issued and repaid during fiscal year 2006, and this did not happen during fiscal year 2007. Due to budget constraints, there was also a significant decrease in capital outlay purchases.

**Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
Unaudited**

| | Governmental Activities | | % of |
|---|-------------------------|---------------|----------|
| | 2007 | 2006 | Change |
| Program Expenses | | | |
| Instruction | | | |
| Regular | \$16,764,826 | \$16,426,426 | 2.06% |
| Special | 3,674,143 | 3,628,594 | 1.26% |
| Vocational | 42,321 | 45,090 | -6.14% |
| Adult/Continuing | 0 | 56 | -100.00% |
| Other | 1,363,739 | 1,535,519 | -11.19% |
| Support Services | | | |
| Pupils | 1,912,887 | 2,235,447 | -14.43% |
| Instructional Staff | 2,086,385 | 2,358,857 | -11.55% |
| Board of Education | 36,074 | 28,145 | 28.17% |
| Administration | 2,586,280 | 2,493,570 | 3.72% |
| Fiscal | 859,347 | 883,271 | -2.71% |
| Business | 275 | 95,832 | -99.71% |
| Operation of Maintenance of Plant | 3,695,665 | 3,648,490 | 1.29% |
| Pupil Transportation | 4,166,316 | 4,110,504 | 1.36% |
| Central | 230,481 | 291,486 | -20.93% |
| Operating of Non-Instructional Services | 1,832,614 | 1,640,841 | 11.69% |
| Extracurricular Activities | 1,005,191 | 922,620 | 8.95% |
| Capital Outlay | 724,040 | 1,495,571 | -51.59% |
| Debt Service | 5,481,470 | 13,556,916 | -59.57% |
| Total Expenses | 46,462,054 | 55,397,235 | -16.13% |
| Change in Net Assets | \$3,744,125 | (\$3,340,664) | 212.08% |

Governmental Activities

The District receives 46.27% of its revenue from property taxes and 41.48% from grants and entitlements. The balance of revenue received, or 12.25%, is in the form of program revenues, investment income, gifts and donations, and miscellaneous items..

Expenses for instruction represent 47.02% of the total governmental expenses. Support services represent 33.52% of the total expenses. The remaining 19.46% of expenses 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.

**Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
Unaudited**

(Table 3)
Governmental Activities

| | Total Cost of Services 2007 | Net Cost of Services 2007 | Total Cost of Services 2006 | Net Cost of Services 2006 | % of Change in Net Cost |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|-------------------------------|
| Instruction | \$21,845,029 | \$19,964,398 | \$21,635,685 | \$19,850,727 | 0.57% |
| Support Services | 15,573,710 | 15,295,954 | 16,145,602 | 15,700,376 | -2.58% |
| Operation of Non-Instructional Services | 1,832,614 | (98,008) | 1,640,841 | (287,317) | -65.89% |
| Extracurricular Activities | 1,005,191 | 736,853 | 922,620 | 623,531 | 18.17% |
| Capital Outlay | 724,040 | 724,040 | 1,495,571 | 1,495,571 | -51.59% |
| Debt Service | 5,481,470 | 5,481,470 | 13,556,916 | 13,523,103 | -59.47% |
| Total Expenses | \$46,462,054 | \$42,104,707 | \$55,397,235 | \$50,905,991 | -17.29% |

The District's Funds

Total governmental funds had receipts of \$49,272,750 and disbursements of \$46,462,054. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$3,067,695. This increase is a result of an increase in property tax collections due to the reappraisal of property values that took place during calendar year 2006. The School District sees the result of those increases in 2007. There was also significantly less paid in debt principal payments in fiscal year 2007 as opposed to fiscal year 2006.

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 2007, the District revised its budget to accommodate changes in expected revenues and planned expenditures.

Due to creating a realistic budget with proper spending controls and budgeting, the District's ending unencumbered cash balance was \$2,066,399 above the final budgeted amount.

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.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
Unaudited

Debt

As of June 30, 2007, the District had outstanding debt of \$45,259,951 in general obligation bonds issued for new construction and improvements, \$1,420,000 in tax anticipation notes, and \$5,758,000 in capital leases for facilities and equipment. At June 30, 2007, the School District's overall legal debt limitation was \$18,652,821, and the unvoted debt margin was \$772,520. The District currently has bond ratings of A- from Standard & Poor which was upgraded in February 2007 and Baa1 from Moody's Investor Services. Further information regarding the District's debt can be found in Note 10 to the basic financial statements.

The Future of Lebanon City School District

The District was placed in "Fiscal Caution" by the State Superintendent of Education due to a projected fund deficit for June 30, 2006. As a result of sound management and prudent fiscal decisions to avoid this deficit, the Department of Education officially released the District from Fiscal Caution on December 3, 2007. The District's stable outlook is based on an expectation that management will be able to effectively manage the District's adequate cash position while making preparations for an operating levy renewal before the end of 2008 with passage contingent on the District maintaining positive relations with the voters.

On September 1, 2005, the District issued \$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. These tax anticipation notes were paid off during fiscal year 2006. In turn, the District issued \$2,100,000 in tax anticipation notes. These notes were issued over a three-year period with final maturity in December, 2008. 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 due to the collections of 4.9 mills instead of the approved voted 5.9 mills. As a result, the Board of Education refunded the \$1,370,000 principal amount of the 2001 Bonds due on December 1, 2006, with the proceeds of its \$1,370,000 School Improvement Unlimited Tax General Obligation Bonds Anticipation Notes, Series 2006, dated November 29, 2006, thus spreading the payment of that principal amount over 25 years and giving the Board of Education flexibility in repaying this amount and avoiding a significant deficit in the District's bond retirement fund. This bond anticipation note was rolled over into a new note on November 28, 2006 for \$850,000 believing that this could be re-issued at a lesser amount every year if needed. In February 2007, the Board refunded the Bond 2001 and Bond 2002 Series notes at a better rate thus eliminating the need to renew the \$850,000 bond anticipation note from 2006.

In November 2005, an emergency tax levy was approved by the voters of the District. The additional revenue from this tax levy, when combined with the over \$2,500,000 in expenditure cuts prior to and during the 2007 fiscal year will continue to help to stabilize the District's financial situation and avoid another operating deficit. 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.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2007
Unaudited

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 Randall R. Bertram, Treasurer at Lebanon City Schools, 700 Holbrook Avenue, Lebanon, OH 45036, by phone at 513-934-5790 or by email at Bertram.Randy@lebanon.k12.oh.us.

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Lebanon City School District, Ohio
Statement of Net Assets - Cash Basis
June 30, 2007

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | <u>\$6,716,573</u> |
| Total Assets | <u><u>\$6,716,573</u></u> |
| Net Assets: | |
| Restricted for: | |
| Other Purposes | \$653,241 |
| Debt Service | 1,533,473 |
| Capital Projects | 987,013 |
| Unrestricted | <u>3,542,846</u> |
| Total Net Assets | <u><u>\$6,716,573</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, 2007

| | Program Cash Receipts | | | | Net (Disbursements) Receipts and Changes in Net Assets |
|--|-----------------------|-------------------------|--|--|--|
| | Cash Disbursements | Charges for Services | Operating Grants, Interest and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$16,764,826 | \$290,757 | \$204,985 | \$32,226 | (\$16,236,858) |
| Special | 3,674,143 | 0 | 1,174,990 | 0 | (2,499,153) |
| Vocational | 42,321 | 0 | 52,772 | 0 | 10,451 |
| Other | 1,363,739 | 59,241 | 65,660 | 0 | (1,238,838) |
| Support Services: | | | | | |
| Pupils | 1,912,887 | 0 | 31,716 | 0 | (1,881,171) |
| Instructional Staff | 2,086,385 | 0 | 92,989 | 0 | (1,993,396) |
| Board of Education | 36,074 | 0 | 0 | 0 | (36,074) |
| Administration | 2,586,280 | 0 | 105,321 | 0 | (2,480,959) |
| Fiscal | 859,347 | 0 | 0 | 0 | (859,347) |
| Business | 275 | 0 | 0 | 0 | (275) |
| Operation and Maintenance of Plant | 3,695,665 | 33,443 | 0 | 0 | (3,662,222) |
| Pupil Transportation | 4,166,316 | 14,287 | 0 | 0 | (4,152,029) |
| Central | 230,481 | 0 | 0 | 0 | (230,481) |
| Operation of Non-Instructional Services | 1,832,614 | 1,178,535 | 752,087 | 0 | 98,008 |
| Extracurricular Activities | 1,005,191 | 268,338 | 0 | 0 | (736,853) |
| Capital Outlay | 724,040 | 0 | 0 | 0 | (724,040) |
| Debt Service | 5,481,470 | 0 | 0 | 0 | (5,481,470) |
| Total Governmental Activities | \$46,462,054 | \$1,844,601 | \$2,480,520 | \$32,226 | (42,104,707) |
| General Receipts: | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 18,879,310 |
| Debt Service | | | | | 3,374,136 |
| Capital Outlay | | | | | 977,496 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 20,826,923 |
| Revenue in Lieu of Taxes | | | | | 96,360 |
| Notes Issued | | | | | 850,000 |
| Investment Earnings | | | | | 366,145 |
| Gifts and Donations | | | | | 97,117 |
| Miscellaneous | | | | | 381,345 |
| Total General Receipts | | | | | 45,848,832 |
| Change in Net Assets | | | | | 3,744,125 |
| Net Assets Beginning of Year - Restated (See Note 14) | | | | | 2,972,448 |
| Net Assets End of Year | | | | | \$6,716,573 |

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, 2007

| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>PERMANENT IMPROVEMENT</u> | <u>OTHER GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|--------------------|-------------------------|----------------------------------|---|---|
| Assets: | | | | | |
| Equity in Pooled Cash and Investments | <u>\$3,542,846</u> | <u>\$1,533,473</u> | <u>\$937,013</u> | <u>\$703,241</u> | <u>\$6,716,573</u> |
| Fund Balances: | | | | | |
| Reserved for Encumbrances | 807,935 | 0 | 200,803 | 198,814 | 1,207,552 |
| Unreserved, Undesignated, Reported in: | | | | | |
| General Fund | 2,734,911 | 0 | 0 | 0 | 2,734,911 |
| Special Revenue Funds | 0 | 0 | 0 | 457,427 | 457,427 |
| Debt Service Fund | 0 | 1,533,473 | 0 | 0 | 1,533,473 |
| Capital Projects Funds | <u>0</u> | <u>0</u> | <u>736,210</u> | <u>47,000</u> | <u>783,210</u> |
| Total Fund Balances | <u>\$3,542,846</u> | <u>\$1,533,473</u> | <u>\$937,013</u> | <u>\$703,241</u> | <u>\$6,716,573</u> |

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, 2007

| | GENERAL | DEBT SERVICE | PERMANENT IMPROVEMENT | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------|--------------------|--------------------------|--------------------------------|--------------------------------|
| Receipts: | | | | | |
| Property and Other Taxes | \$18,879,310 | \$3,374,136 | \$977,496 | \$0 | \$23,230,942 |
| Intergovernmental | 20,367,758 | 371,551 | 140,386 | 2,459,974 | 23,339,669 |
| Interest | 236,231 | 77,040 | 33,475 | 19,399 | 366,145 |
| Tuition and Fees | 89,929 | 0 | 0 | 236,703 | 326,632 |
| Rent | 47,730 | 0 | 24,750 | 0 | 72,480 |
| Extracurricular Activities | 0 | 0 | 0 | 268,338 | 268,338 |
| Gifts and Donations | 1,682 | 0 | 25,000 | 70,435 | 97,117 |
| Charges for Services | 23,366 | 0 | 0 | 1,178,535 | 1,201,901 |
| Miscellaneous | 269,854 | 0 | 0 | 99,672 | 369,526 |
| Total Receipts | 39,915,860 | 3,822,727 | 1,201,107 | 4,333,056 | 49,272,750 |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 16,294,055 | 0 | 6,259 | 464,512 | 16,764,826 |
| Special | 2,494,698 | 0 | 0 | 1,179,445 | 3,674,143 |
| Vocational | 42,321 | 0 | 0 | 0 | 42,321 |
| Other | 1,296,348 | 0 | 0 | 67,391 | 1,363,739 |
| Support Services: | | | | | |
| Pupils | 1,886,276 | 0 | 0 | 26,611 | 1,912,887 |
| Instructional Staff | 1,938,449 | 0 | 0 | 147,936 | 2,086,385 |
| Board of Education | 36,074 | 0 | 0 | 0 | 36,074 |
| Administration | 2,468,536 | 7,517 | 2,296 | 107,931 | 2,586,280 |
| Fiscal | 790,598 | 51,343 | 17,406 | 0 | 859,347 |
| Business | 275 | 0 | 0 | 0 | 275 |
| Operation and Maintenance of Plant | 3,672,374 | 0 | 6,512 | 16,779 | 3,695,665 |
| Pupil Transportation | 4,166,316 | 0 | 0 | 0 | 4,166,316 |
| Central | 204,656 | 0 | 0 | 25,825 | 230,481 |
| Operation of Non-Instructional Services | 1,610 | 0 | 0 | 1,831,004 | 1,832,614 |
| Extracurricular Activities | 606,662 | 0 | 0 | 398,529 | 1,005,191 |
| Capital Outlay | 0 | 0 | 647,680 | 76,360 | 724,040 |
| Debt Service: | | | | | |
| Principal Retirement | 731,000 | 2,405,000 | 107,000 | 0 | 3,243,000 |
| Interest and Fiscal Charges | 264,944 | 1,835,717 | 83,776 | 54,033 | 2,238,470 |
| Total Disbursements | 36,895,192 | 4,299,577 | 870,929 | 4,396,356 | 46,462,054 |
| Excess of Receipts Over (Under) Disbursements | 3,020,668 | (476,850) | 330,178 | (63,300) | 2,810,696 |
| Other Financing Sources (Uses): | | | | | |
| Proceeds from Sale of Notes | 0 | 850,000 | 0 | 0 | 850,000 |
| Refund of Prior Year Expenditures | 58,114 | 30,543 | 0 | 14,416 | 103,073 |
| Refund of Prior Year Receipts | (538) | 0 | 0 | (19,106) | (19,644) |
| Advances - In | 58,366 | 0 | 0 | 68,915 | 127,281 |
| Advances - Out | (68,915) | 0 | 0 | (58,366) | (127,281) |
| Total Other Financing Sources (Uses) | 47,027 | 880,543 | 0 | 5,859 | 933,429 |
| Net Change in Fund Balances | 3,067,695 | 403,693 | 330,178 | (57,441) | 3,744,125 |
| Fund Balances at Beginning of Year - Restated (See Note 14) | 475,151 | 1,129,780 | 606,835 | 760,682 | 2,972,448 |
| Fund Balances at End of Year | \$3,542,846 | \$1,533,473 | \$937,013 | \$703,241 | \$6,716,573 |

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, 2007

| | Budgeted Amounts | | Actual | Variance With |
|--|--------------------|-------------------|--------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Property and Other Taxes | \$17,965,000 | \$17,144,284 | \$18,879,310 | \$1,735,026 |
| Intergovernmental | 20,078,500 | 20,663,680 | 20,367,758 | (295,922) |
| Interest | 110,000 | 220,000 | 236,231 | 16,231 |
| Tuition and Fees | 55,000 | 115,000 | 89,929 | (25,071) |
| Gifts and Donations | 0 | 2,000 | 1,682 | (318) |
| Charges for Services | 6,000 | 20,501 | 23,366 | 2,865 |
| Rent | 20,000 | 20,000 | 47,730 | 27,730 |
| Miscellaneous | 134,000 | 564,397 | 269,854 | (294,543) |
| Total Revenues | 38,368,500 | 38,749,862 | 39,915,860 | 1,165,998 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 16,278,860 | 17,031,201 | 16,336,422 | 694,779 |
| Special | 2,550,603 | 2,785,647 | 2,806,070 | (20,423) |
| Vocational | 37,371 | 47,187 | 45,130 | 2,057 |
| Other | 1,375,372 | 1,361,571 | 1,345,529 | 16,042 |
| Support Services: | | | | |
| Pupils | 2,146,659 | 2,026,557 | 2,216,407 | (189,850) |
| Instructional Staff | 1,998,911 | 1,990,490 | 1,949,796 | 40,694 |
| Board of Education | 41,029 | 36,104 | 36,074 | 30 |
| Administration | 2,535,422 | 2,516,928 | 2,473,064 | 43,864 |
| Fiscal | 823,695 | 820,834 | 795,198 | 25,636 |
| Business | 490 | 275 | 275 | 0 |
| Operation and Maintenance of Plant | 3,762,955 | 3,780,638 | 3,704,343 | 76,295 |
| Pupil Transportation | 4,050,135 | 4,068,582 | 4,180,508 | (111,926) |
| Central | 526,207 | 338,825 | 210,095 | 128,730 |
| Operation of Non-Instructional Services | 11,535 | 11,535 | 1,610 | 9,925 |
| Extracurricular Activities | 623,825 | 634,175 | 606,662 | 27,513 |
| Debt Service: | | | | |
| Principal | 731,000 | 731,000 | 731,000 | 0 |
| Interest | 276,244 | 277,780 | 264,944 | 12,836 |
| Total Expenditures | 37,770,313 | 38,459,329 | 37,703,127 | 756,202 |
| Excess of Revenues Over Expenditures | 598,187 | 290,533 | 2,212,733 | 1,922,200 |
| Other Financing Sources (Uses): | | | | |
| Refund of Prior Year Receipts | (363) | (538) | (538) | 0 |
| Refund of Prior Year Expenditures | 20,000 | 45,000 | 58,114 | 13,114 |
| Proceeds from Sale of Capital Assets | 5,000 | 0 | 0 | 0 |
| Advances - In | 0 | 58,366 | 58,366 | 0 |
| Advances - Out | 0 | (200,000) | (68,915) | 131,085 |
| Total Other Financing Sources (Uses) | 24,637 | (97,172) | 47,027 | 144,199 |
| Net Change in Fund Balances | 622,824 | 193,361 | 2,259,760 | 2,066,399 |
| Fund Balances (Deficit) at Beginning of Year | 175,232 | 175,232 | 175,232 | 0 |
| Prior Year Encumbrances Appropriated | 299,919 | 299,919 | 299,919 | 0 |
| Fund Balances at End of Year | \$1,097,975 | \$668,512 | \$2,734,911 | \$2,066,399 |

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2007

| | Private Purpose Trust | Agency |
|--|--------------------------|----------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$203,763 | \$88,275 |
| Net Assets: | | |
| Restricted for Students | 0 | 88,275 |
| Held in Trust for Scholarships | 203,763 | 0 |
| Total Net Assets | \$203,763 | \$88,275 |

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, 2007

| | <u>Private Purpose Trust</u> |
|---|------------------------------|
| Additions: | |
| Interest | \$12,029 |
| Gifts and Donations | 19,599 |
| Total Additions | 31,628 |
| Deductions: | |
| Payments in Accordance with Trust Agreements | 17,800 |
| Change in Net Assets | 13,828 |
| Net Assets Beginning of Year - Restated (See Note 14) | 189,935 |
| Net Assets End of Year | \$203,763 |

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, 2007

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 224 non-certified employees, 300 certified full time teaching personnel, who provide services to 5,310 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 12 to the basic financial statements.

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.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Permanent Improvement Fund - The Permanent Improvement Fund (a capital projects fund) accounts for all transactions related to the acquiring, constructing or improving facilities in the District. This is funded through a permanent improvement levy.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The District's financial statements are prepared using the cash basis of accounting, which is not in compliance with the Ohio Administrative Code 117-2-03(B) that states all school districts shall file annual financial reports prepared using generally accepted accounting principles. 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.

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.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Investments

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

During fiscal year 2007, the District's investments included money market funds, Federal National Mortgage Association Notes, STAR Ohio and certificates of deposit. Investments are reported at fair value, which is based on quoted market prices.

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 2007 were \$236,231, which included \$109,860 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 7 and 8, 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, music and athletic programs, 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.

The statement of net assets – cash basis reports \$3,173,727 of restricted net assets, of which none 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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 3 - 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 (cash basis).

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

| | |
|-----------------------------|---------------------------|
| GAAP Basis | \$3,067,695 |
| Adjustment for Encumbrances | <u>(807,935)</u> |
| Budget Basis | <u><u>\$2,259,760</u></u> |

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.75 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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 School District prior to June 30.

The School District receives property taxes from Warren County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2007 taxes were collected are:

| | <u>2006 Second- Half Collections</u> | | <u>2007 First- Half Collections</u> | |
|---|--|----------------|---|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$635,343,120 | 92.36% | \$756,597,120 | 94.53% |
| Public Utility | 21,729,670 | 3.16% | 20,998,200 | 2.62% |
| Tangible Personal Property | 30,854,585 | 4.48% | 22,839,587 | 2.85% |
| Total Assessed Value | <u>\$687,927,375</u> | <u>100.00%</u> | <u>\$800,434,907</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$63.11 | | \$62.21 | |

NOTE 5 - 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, 2007.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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, notes, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency or instrumentality securities must be a direct issuance of the federal agency or instrumentality;
3. STAR Ohio is eligible as long as the fund maintains the highest letter rating provided by at least one nationally recognized standard rating service as outlined in ORC 135.45;
4. Bonds and other obligations of the state of Ohio;
5. Interim deposits, such as certificates of deposits, in the eligible institutions having been approved by the Board for interim moneys. All demand and time deposits must be properly collateralized as required by ORC 135.18;
6. No-load money market funds offered by eligible depositories under ORC 135.03 consisting exclusively of obligations described in (1) or (2) above; and
7. Written repurchase agreements (repos) with any eligible public depository mentioned in ORC 135.03, or with any dealer who is a member of the NASD. The market value of the securities held as collateral for an overnight repo (including sweep accounts) or term repo must exceed principal by at least 2 %, and the securities must be marked to market daily. Term repurchase agreement with an eligible securities dealer must be transacted on a delivery versus payment basis. All securities purchased pursuant to a repurchase agreement must be delivered into the custody of the Treasurer or an agent designated by the Treasurer. Such institution or dealer must agree in writing to unconditionally repurchase any of the securities used for any repo transaction.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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, \$1,098,387 of the District's bank balance of \$1,198,387 was exposed to custodial credit risk because it was uninsured, but collateralized as defined by GASB Statement No. 3. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The 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.

B. Investments

As of June 30, 2007, the District had the following investments. All investments are in an internal investment pool.

| <u>Investment Type (Cost)</u> | Fair Value | Investment Maturities (in years) | |
|---|--------------------|-------------------------------------|-------------------|
| | | 1-2 | Greater than 2 |
| Money Market Funds (\$21,718) | \$21,718 | \$0 | \$0 |
| Federal National Mortgage Association Notes (\$13,000) | 12,625 | 0 | 12,625 |
| STAR Ohio (\$6,376,901) | <u>6,376,901</u> | <u>0</u> | <u>0</u> |
| Total Investments | <u>\$6,411,244</u> | <u>\$0</u> | <u>\$12,625</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, 2007 from Standard and Poor's is AAA. The District's investment policy limits investments to those authorized by State statute.

Concentration of Credit Risk: The District places no limit on the amount it may invest in any one issuer. The District's investment in STAR Ohio represents 99 percent of the District's total investments.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - 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 2007, the District contracted with Indiana Insurance for general liability insurance with a \$1,000,000 single occurrence limit and a \$2,000,000 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.

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. Workers' Compensation

For fiscal year 2007, the District participated in the Ohio School Board's Association Group Rating Program (GRP), an insurance purchasing pool (Note 12). 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$2,239,961, \$2,209,505, and \$2,489,904, respectively; 83 percent has been contributed for the fiscal year ended June 30, 2007, and 100 percent has been contributed for the fiscal years ended June 30, 2006 and 2005.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

B. School Employees Retirement System

The School 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.58 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$603,009, \$594,833, and \$777,415, respectively; 83 percent has been contributed for the fiscal year ended June 30, 2007, and 100 percent has been contributed for the fiscal years ended June 30, 2006 and 2005.

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, 2007, there were no Board members that elected Social Security.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The School 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 partial 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, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$172,305 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)

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.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$206,229.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 9 – SHORT-TERM OBLIGATIONS

As of June 30, 2007, the School District had the following short-term obligations outstanding:

| | Amount Outstanding July 1, 2006 | Additions | Deductions | Amount Outstanding June 30, 2007 |
|--------------------------------|---------------------------------------|------------------|--------------------|--|
| Bond Retirement Fund: | | | | |
| Bond Anticipation Note – 3.75% | \$1,370,000 | \$0 | \$1,370,000 | \$0 |
| Bond Anticipation Note – 4.20% | 0 | 850,000 | 0 | 850,000 |
| Totals | <u>\$1,370,000</u> | <u>\$850,000</u> | <u>\$1,370,000</u> | <u>\$850,000</u> |

The \$850,000 bond anticipation note was issued for the purpose of paying the debt principal and interest payments on the construction and improvement bonds.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2007 were as follows:

| | Amount Outstanding 7/1/2006 | Additions | Deductions | Amount Outstanding 6/30/07 |
|---|-----------------------------------|---------------------|---------------------|----------------------------------|
| Governmental Activities | | | | |
| General Obligation Bonds: | | | | |
| Ohio School Facilities Construction And Improvement Bonds – 2002, 5.11% | \$23,555,000 | \$0 | \$18,855,000 | \$4,700,000 |
| New School Construction Bond – 2002, 5.10% | 4,689,999 | 0 | 4,070,000 | 619,999 |
| June 5, 2006 Refunding of General Obligation Bonds | 18,049,965 | 0 | 290,000 | 17,759,965 |
| 2007 Refunding of General Obligation Bonds | 0 | 22,179,987 | 0 | 22,179,987 |
| Tax Anticipation Notes: | | | | |
| Tax Anticipation Note – 2006, 3.7% | 2,100,000 | 0 | 680,000 | 1,420,000 |
| Capital Leases: | | | | |
| COPS Capital Lease | 3,401,000 | 0 | 51,000 | 3,350,000 |
| OASBO Pool Capital Lease | 2,500,000 | 15,000 | 107,000 | 2,408,000 |
| Total Governmental Activities Long – Term Liabilities | <u>\$54,295,864</u> | <u>\$22,194,987</u> | <u>\$24,052,900</u> | <u>\$52,437,951</u> |

General Obligation Bonds

In fiscal year 2002, the School District issued \$50,000,000 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. The 2007 refunding bonds were used to advance refund the bonds due December 1, 2029. There was no cash effect to this refunding.

Tax Anticipation Notes:

In fiscal year 2006, the School District issued \$2,100,000 in tax anticipation notes to help with cash flow in anticipation of taxes collected from the emergency operating levy that was passed.

Capital Leases:

In fiscal year 2004, the School District issued a \$2,887,000 OASBO Pool Loan for the purpose of financing the bus garage construction and improvement. This loan was refinanced during fiscal year 2007 with a final maturity date of May 1, 2013.

In fiscal year 2006, 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. These COPS were refinanced at an amount of \$3,401,000 with a final maturity date of December 1, 2030.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

All general obligation debt is supported by the full faith and credit of the School District. The school construction bonds will be paid from the debt service fund. At June 30, 2007, the School District's overall legal debt limitation was \$18,652,821, and the unvoted debt margin was \$772,520.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2007, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|---------------------|---------------------|
| 2008 | \$2,481,000 | \$2,243,109 | \$4,724,109 |
| 2009 | 3,310,000 | 2,122,393 | 5,432,393 |
| 2010 | 2,790,000 | 1,993,051 | 4,783,051 |
| 2011 | 3,310,000 | 1,862,171 | 5,172,171 |
| 2012 | 2,050,027 | 1,865,121 | 3,915,148 |
| 2013-2017 | 10,044,937 | 10,210,980 | 20,255,917 |
| 2018-2022 | 11,918,580 | 5,509,531 | 17,428,111 |
| 2023-2027 | 9,649,407 | 4,586,882 | 14,236,289 |
| 2028-2031 | 6,884,000 | 442,314 | 7,326,314 |
| Total | <u>\$52,437,951</u> | <u>\$30,835,552</u> | <u>\$83,273,503</u> |

NOTE 11 - LEASES

The School District leases buildings, vehicles and other equipment under noncancelable leases. The School District disbursed \$515,250 to pay lease costs for the year ended June 30, 2007. Future lease payments are as follows:

| Fiscal Year Ending June 30, | Total Payments |
|---|--------------------|
| 2008 | \$755,578 |
| 2009 | 738,154 |
| 2010 | 721,515 |
| 2011 | 704,615 |
| 2012 | 687,429 |
| 2013-2017 | 1,669,380 |
| 2018-2022 | 1,243,948 |
| 2023-2027 | 1,240,076 |
| 2028-2031 | 988,620 |
| Total | 8,749,315 |
| Less: Amount Representing Interest | (2,991,315) |
| Present Value of Net Minimum Lease Payments | <u>\$5,758,000</u> |

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 \$90,665 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 2007, the District paid \$2,414 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 2007, the District paid \$498 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, 2007

NOTE 12 - 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 13 – 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.

| | Textbooks/Instructional Materials | Capital Improvements |
|---|--------------------------------------|----------------------|
| Set-aside Reserve Balance as of June 30, 2006 | \$0 | \$0 |
| Current Year Set-aside Requirement | 751,029 | 751,029 |
| Carryover from Prior Year | (307,062) | 0 |
| Qualifying Disbursements | (564,143) | (93,994) |
| Current Year Offsets | 0 | (977,496) |
| Total | (\$120,176) | (\$320,461) |
| Set-aside Balance Carried Forward to Future Fiscal Years | (\$120,176) | \$0 |
| Set-aside Reserve Balance as of June 30, 2007 | \$0 | \$0 |

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 13 – SET- ASIDE CALCULATION (continued)

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.

NOTE 14 – RESTATEMENT OF FUND BALANCE AND NET ASSETS

During fiscal year 2006, cash in the debt service fund was overstated, and cash in the private purpose fiduciary fund was understated. These restatements had the following effect on the fund balance of major and fiduciary funds of the School District as previously reported.

| | Debt Service Fund | Private Purpose Trust Fund |
|--|----------------------|-------------------------------|
| Fund Balance at June 30, 2006 | \$1,160,323 | \$187,888 |
| Cash Adjustments | (30,543) | 2,047 |
| Adjusted Fund Balance at June 30, 2006 | \$1,129,780 | \$189,935 |

These adjustments had the following effect on net assets at the beginning of the year.

| | |
|---|-------------|
| Governmental Activities Net Assets June 30, 2006 | \$3,002,991 |
| Government-Wide Financial Statement Adjustments: | |
| Cash and Cash Equivalents | (30,543) |
| Adjusted Governmental Activities Net Assets June 30, 2006 | \$2,972,448 |

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, 2007.

B. Litigation

The District was a party to legal proceedings at June 30, 2007. 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

Schedule of Prior Audit Findings

Year Ended June 30, 2007

NONCOMPLIANCE

2006-1 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 six (6) items had the following deviation from the School District's stated internal control procedures:

- The invoice date was prior to the purchase order date

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.

Status: Corrected in the current year

2006-2 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.

Status: See current year finding 2007-1.

2006-3 Filing of Financial Reports:

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.

Status: See current year finding 2007-2

2006-4 Security for Repayment of Public Deposits:

Ohio Revised Code Section 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 one account that amounted to \$54,000 in funds for which the District did not obtain Pooled Collateral Statements and was uninsured and uncollateralized.

Status: See current year finding 2007-3.

2006-5 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 April 30, 2006 the School District had 3 funds that had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county. It was also noted as of June 30, 2006 the School District had 6 funds that had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county.

Status: See current year finding 2007-4.

2006-6 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 two instances in which expenditures exceeded appropriations as of April 30, 2006.

Status: See current year finding 2007-5.

LEBANON CITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

| <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> | | | | |
| Food Donation | N/A | 10.550 | \$ 14,225 | 14,225 |
| Nutrition Cluster: | | | | |
| School Breakfast Program | 05PU | 10.553 | 41,992 | 41,992 |
| National School Lunch Program | LLP4 | 10.555 | <u>293,269</u> | <u>293,269</u> |
| Nutrition Cluster Total | | | <u>335,261</u> | <u>335,261</u> |
| Emergency Food Assistance Program | | 10.569 | <u>78,996</u> | <u>78,996</u> |
| Total U.S. Department of Agriculture | | | <u>428,482</u> | <u>428,482</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 | 429,810 | 447,912 |
| Title I Program for Neglected & Delinquent Children | C1SD | 84.013 | 53,269 | 53,269 |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 6BSF | 84.027 | 979,464 | 970,648 |
| Special Education - Preschool Grants | PGS1/PGD7 | 84.173 | <u>9,424</u> | <u>9,424</u> |
| Special Education Cluster Total | | | <u>988,888</u> | <u>980,072</u> |
| Safe and Drug-Free Schools and Communities - State Grants | DRS1 | 84.186 | 20,783 | 15,000 |
| State Grants for Innovative Programs | C2S1 | 84.298 | 9,535 | 27,050 |
| Education Technology State Grants | TJS1 | 84.318 | 6,136 | 6,136 |
| English Language Acquisition Grant | TRS1 | 84.365 | 11,830 | 12,611 |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | <u>153,263</u> | <u>143,161</u> |
| Total U.S. Department of Education | | | <u>1,673,514</u> | <u>1,685,211</u> |
| Total Federal Awards | | | \$ <u>2,101,996</u> | <u>2,113,693</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, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 17, 2008, wherein we noted that the School District has prepared its financial statements using a 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

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

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 2007-1 through 2007-5.

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 18, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON 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, Ohio (the 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, 2007. 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 the 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, 2007.

Internal Control over Compliance

The management of the 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, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in the School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of and for the year ended June 30, 2007, and have issued our report thereon dated January 17, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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.

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, Haskell & Co.

Middletown, Ohio
January 17, 2008

LEBANON CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

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)? | none |
| Noncompliance material to financial statements noted? | none |

Federal Awards

| | |
|---|-------------|
| Internal Control over major programs: | |
| Material weakness(es) identified? | no |
| Reportable condition(s) identified not considered to be material weakness(es)? | no |
| 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)? | no |
| Identification of major programs: | |
| <i>Title I Grants to Local Education Agencies (CFDA 84.010)</i> | |
| <i>Nutrition Cluster (CFDA's 10.553 and 10.555)</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

NONCOMPLIANCE

2007-1 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.

Management Response: The investment policy was submitted to the Community Audit Advisory Committee (CAAC) at its June meeting. The CAAC made some changes, and then passed a resolution to recommend the policy to the Board of Education for adoption. The first reading of the investment policy was at the July 17, 2006 Board meeting. The Board of Education adopted and approved this policy at the August 21, 2006 regular Board meeting. The policy is in the process of being sent out to all entities conducting investment business with the School District.

2007-2 Filing of Financial Reports:

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.

Management Response: The District chose not to report on a GAAP basis for 2007 mainly to avoid the additional audit costs of \$12,000 to \$15,000. These costs were still prohibitive while the District was in fiscal caution.

For fiscal year 2008, the District will continue to examine the cost vs. benefits of reporting on a GAAP basis. Whether the District prepares General Purpose Financial Statements or a Comprehensive Annual Financial Report has not been decided. The financial condition of the District, staff availability and costs will be considered carefully before a decision is made.

2007-3 Security for Repayment of Public Deposits:

Ohio Revised Code Section 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 one account that amounted to \$61,670 in funds for which the District did not obtain Pooled Collateral Statements and was uninsured and uncollateralized.

Management Response: During fiscal year 2006, the District moved all liquid deposits from institutions that do not have pledged securities securing District funds. This greatly reduced the District's exposure for unsecured deposits, but did not eliminate the condition at June 30, 2007. To eliminate the condition, it would require the District to terminate certain investments purchased prior to maturity with a risk of interest and principal loss. The current administration believes the risk to principal and interest poses a greater loss than the risk of the financial institution becoming insolvent at this time.

2007-4 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 April 30, 2007 the School District had one fund that had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county. It was also noted as of June 30, 2007 the School District had the same fund that had appropriations that exceeded the amount included on the certificate of estimated resources filed with the county.

Management Response: The fiscal office reviews revenue collections on a monthly basis and submits revised certificates of estimated resources to the Board of Education for approval. Once approved, the revised certificates of estimated resources to the Board of Education are submitted to the County Budget Commission.

Appropriations are checked against the certificates of estimated resources monthly using a Uniform School Accounting System program named appropriation_receivable. The software compares revenue collections to estimate and provides a variance noting where adjustment is needed. Additionally, it also calculates appropriations against estimated resources to ensure that appropriations do not exceed estimated resources. Appropriations are adjusted accordingly based on the information identified and submitted to the Board of Education monthly for approval. Once approved the revised appropriation resolutions are submitted to the County Auditor.

2007-5 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 two instances in which expenditures exceeded appropriations as of April 30, 2007, and three instances in which expenditures exceeded appropriations as of June 30, 2007 .

Management Response: The process described regarding appropriations in the response to 2007-4 is utilized to address this issue. Additionally, security software also restricts requisitioners based on account, available appropriation and available cash before submitted to the fiscal office for certification

Section III - Federal Award Findings and Questioned Costs

- None -



Mary Taylor, CPA
Auditor of State

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
MARCH 10, 2009**