

LEBANON CITY SCHOOL DISTRICT

Basic Financial Statements
Year Ended June 30, 2008
with Independent Auditors' Report





Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Lebanon City School District, Warren County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 through June 30, 2008. 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

March 12, 2009

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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, 2008, 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, 2008, 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 14, 2009 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.

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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 basic 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 14, 2009

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
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, 2008. 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 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 \$4,379,123 or 65.28%. The General Fund reported a fund balance of \$7,533,020.
- General revenues accounted for \$46,730,481 in revenue or 90.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,998,215 or 9.66% of total revenues of \$51,728,696.
- The District had \$47,349,573 in cash disbursements to governmental activities; only \$4,998,215 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes and entitlements) of \$46,730,481 were adequate to provide these services.
- Among major funds, the general fund had \$41,423,271 in receipts and \$37,596,680 in disbursements. The general fund's balance increased \$3,990,174 from fiscal year 2007.

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, 2008
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 2008, 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, 2008
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 2008 and 2007:

(Table 1)
Net Assets

	Governmental Activities		% of Change
	2008	2007 (restated)	
Assets			
Cash and Investments	\$10,950,595	\$6,708,241	63.24%
Restricted Cash	136,769	0	100.00%
Total Assets	\$11,087,364	\$6,708,241	65.28%
Net Assets Invested in:			
Restricted			
Other Purposes	\$1,044,184	\$644,909	61.91%
Set Asides	136,769	0	100.00%
Debt Service	1,520,439	1,533,473	-0.85%
Capital Projects	989,721	987,013	0.27%
Unrestricted	7,396,251	3,542,846	108.77%
Total Net Assets	\$11,087,364	\$6,708,241	65.28%

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
Unaudited

Total assets increased by \$4,379,123. The increase can be attributed to the continued implementation of budget cuts from prior fiscal years in addition to an increase in property tax receipts and intergovernmental receipts.

Table 2 demonstrates the changes in net assets for fiscal year 2008. The District experienced a 1.92% increase in total general receipts during 2008. This is attributable to an increase in operating grants and charges for services from cafeteria receipts, as well as property tax receipts.

(Table 2)
Change in Net Assets

	Governmental Activities		% of Change
	2008	2007	
Revenues			
Program Receipts:			
Charges for Services	\$2,089,562	\$1,844,601	13.28%
Operating Grants, Interest and Contributions	2,908,653	2,480,520	17.26%
Capital Grants and Contributions	0	32,226	-100.00%
Total Program Receipts	4,998,215	4,357,347	14.71%
General Receipts:			
Property Taxes			
General Purposes	19,800,654	18,879,310	4.88%
Debt Service	3,672,833	3,374,136	8.85%
Capital Projects	992,461	977,496	1.53%
Grants and Entitlements not Restricted to			
Specific Programs	21,458,856	20,826,923	3.03%
Revenue in Lieu of Taxes	112,119	96,360	16.35%
Sale of Capital Assets	2,734	0	100.00%
Notes Issued	0	850,000	-100.00%
Investment Earnings	407,773	366,145	11.37%
Gifts and Donations	34,099	97,117	-64.89%
Miscellaneous	248,952	381,345	-34.72%
Total General Receipts	46,730,481	45,848,832	1.92%
Total All Receipts	\$51,728,696	\$50,206,179	3.03%

(Continued)

Expenditures increased by \$887,519 or 1.91% from 2007. The increase can be attributed to an increase in the costs of the contracted services that the District purchases through the Warren County Educational Service Center including, but not limited to, occupational therapy, physical therapy, psychological services, and speech services.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
Unaudited

(Table 2)
Change in Net Assets
(Continued)

	Governmental Activities		% of Change
	2008	2007	
Program Expenses			
Instruction			
Regular	\$16,874,965	\$16,764,826	0.66%
Special	3,931,271	3,674,143	7.00%
Vocational	43,696	42,321	3.25%
Other	1,756,987	1,363,739	28.84%
Support Services			
Pupils	2,248,461	1,912,887	17.54%
Instructional Staff	2,268,011	2,086,385	8.71%
Board of Education	34,042	36,074	-5.63%
Administration	2,616,287	2,586,280	1.16%
Fiscal	862,364	859,347	0.35%
Business	97	275	-64.73%
Operation of Maintenance of Plant	3,617,862	3,695,665	-2.11%
Pupil Transportation	3,759,321	4,166,316	-9.77%
Central	247,922	230,481	7.57%
Operating of Non-Instructional Services	1,788,327	1,832,614	-2.42%
Extracurricular Activities	1,016,243	1,005,191	1.10%
Capital Outlay	674,006	724,040	-6.91%
Debt Service	5,609,711	5,481,470	2.34%
Total Expenses	47,349,573	46,462,054	1.91%
Change in Net Assets	\$4,379,123	\$3,744,125	16.96%

Governmental Activities

The District receives 47.30% of its revenue from property taxes and 41.48% from grants and entitlements. The balance of revenue received, or 11.22%, is in the form of program revenues, investment income, gifts and donations, and miscellaneous items.

Expenses for instruction represent 47.74% of the total governmental expenses. Support services represent 33.06% of the total expenses. The remaining 19.20% of expenses are distributed to food services, community services, extracurricular activities, and capital outlay and debt service.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
Unaudited

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

(Table 3)
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007	% of Change in Net Cost
Instruction	\$22,606,919	20,715,632	\$21,845,029	\$19,964,398	3.76%
Support Services	15,654,367	15,202,465	15,573,710	15,295,954	-0.61%
Operation of Non-Instructional Services	1,788,327	(424,576)	1,832,614	(98,008)	333.21%
Extracurricular Activities	1,016,243	574,120	1,005,191	736,853	-22.08%
Capital Outlay	674,006	674,006	724,040	724,040	-6.91%
Debt Service	5,609,711	5,609,711	5,481,470	5,481,470	2.34%
Total Expenses	\$47,349,573	\$42,351,358	\$46,462,054	\$42,104,707	0.59%

The District's Funds

Total governmental funds had receipts of \$51,628,550 and disbursements of \$47,349,573. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$3,990,174. 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 2007. The School District sees the result of those increases in 2008.

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 2008, 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 \$663,593 above the final budgeted amount.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
Unaudited

Capital Assets and Debt Administration

Capital Assets

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

Debt

As of June 30, 2008, the District had outstanding debt of \$43,944,951 in general obligation bonds issued for new construction and improvements, \$725,000 in tax anticipation notes, and \$5,287,000 in capital leases for facilities and equipment. At June 30, 2008, the School District's overall legal debt limitation was \$23,488,297, and the unvoted debt margin was \$799,165. 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, 2007. 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 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.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2008
Unaudited

In November 2008, the voters approved a renewal of the emergency tax levy that was originally approved in November of 2005. The additional revenue from this tax levy, when combined with the over \$2,500,000 in expenditure cuts prior to and during the 2008 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.

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 (Paul) Eric Sotzing, Treasurer at Lebanon City Schools, 700 Holbrook Avenue, Lebanon, OH 45036, by phone at 513-934-5790 or by email at Sotzing.Eric@lebanon.k12.oh.us.

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Lebanon City School District, Ohio
Statement of Net Assets - Cash Basis
June 30, 2008

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$10,950,595
Restricted Cash and Cash Equivalents	136,769
Total Assets	\$11,087,364
Net Assets:	
Restricted for:	
Other Purposes	\$1,044,184
Set Asides	136,769
Debt Service	1,520,439
Capital Projects	989,721
Unrestricted	7,396,251
Total Net Assets	\$11,087,364

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, 2008

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants, Interest and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$16,874,965	\$251,043	\$116,155	(\$16,507,767)
Special	3,931,271	0	1,314,294	(2,616,977)
Vocational	43,696	0	45,072	1,376
Other	1,756,987	112,471	52,252	(1,592,264)
Support Services:				
Pupils	2,248,461	0	23,036	(2,225,425)
Instructional Staff	2,268,011	26,781	113,664	(2,127,566)
Board of Education	34,042	0	0	(34,042)
Administration	2,616,287	0	107,636	(2,508,651)
Fiscal	862,364	0	0	(862,364)
Business	97	0	0	(97)
Operation and Maintenance of Plant	3,617,862	79,249	0	(3,538,613)
Pupil Transportation	3,759,321	0	65,533	(3,693,788)
Central	247,922	0	36,003	(211,919)
Operation of Non-Instructional Services	1,788,327	1,262,752	950,151	424,576
Extracurricular Activities	1,016,243	357,266	84,857	(574,120)
Capital Outlay	674,006	0	0	(674,006)
Debt Service	5,609,711	0	0	(5,609,711)
Total Governmental Activities	\$47,349,573	\$2,089,562	\$2,908,653	(42,351,358)

General Receipts:

Property Taxes Levied for:	
General Purposes	19,800,654
Debt Service	3,672,833
Capital Outlay	992,461
Grants and Entitlements not Restricted to Specific Programs	21,458,856
Revenue in Lieu of Taxes	112,119
Investment Earnings	407,773
Gifts and Donations	34,099
Miscellaneous	248,952
Proceeds from Sale of Capital Assets	2,734
Total General Receipts	46,730,481
Change in Net Assets	4,379,123
Net Assets Beginning of Year - Restated (See Note 14)	6,708,241
Net Assets End of Year	\$11,087,364

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, 2008

	GENERAL	DEBT SERVICE	PERMANENT IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Equity in Pooled Cash and Investments	\$7,396,251	\$1,520,439	\$937,447	\$1,096,458	\$10,950,595
Restricted Cash and Cash Equivalents	136,769	0	0	0	136,769
Total Assets	\$7,533,020	\$1,520,439	\$937,447	\$1,096,458	\$11,087,364
Fund Balances:					
Reserved for Encumbrances	739,903	0	460,447	109,614	1,309,964
Reserved for Textbooks/Instructional Materials	136,769	0	0	0	136,769
Unreserved, Undesignated, Reported in:					
General Fund	6,656,348	0	0	0	6,656,348
Special Revenue Funds	0	0	0	934,570	934,570
Debt Service Fund	0	1,520,439	0	0	1,520,439
Capital Projects Funds	0	0	477,000	52,274	529,274
Total Fund Balances	\$7,533,020	\$1,520,439	\$937,447	\$1,096,458	\$11,087,364

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, 2008

	GENERAL	DEBT SERVICE	PERMANENT IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Receipts:					
Property and Other Taxes	\$19,800,654	\$3,672,833	\$992,461	\$0	\$24,465,948
Intergovernmental	20,809,158	439,585	158,460	2,822,286	24,229,489
Interest	319,979	48,708	36,812	20,142	425,641
Tuition and Fees	112,471	0	0	246,015	358,486
Rent	79,249	0	0	0	79,249
Extracurricular Activities	9,634	0	0	365,823	375,457
Gifts and Donations	8,099	0	26,000	72,252	106,351
Charges for Services	20,368	0	0	1,256,002	1,276,370
Miscellaneous	263,659	0	0	47,900	311,559
Total Receipts	41,423,271	4,161,126	1,213,733	4,830,420	51,628,550
Disbursements:					
Current:					
Instruction:					
Regular	16,446,642	0	0	428,323	16,874,965
Special	2,624,417	0	0	1,306,854	3,931,271
Vocational	43,696	0	0	0	43,696
Other	1,706,244	0	0	50,743	1,756,987
Support Services:					
Pupils	2,224,136	0	0	24,325	2,248,461
Instructional Staff	2,102,162	0	0	165,849	2,268,011
Board of Education	28,322	0	5,720	0	34,042
Administration	2,498,890	7,295	2,059	108,043	2,616,287
Fiscal	792,492	54,923	14,949	0	862,364
Business	97	0	0	0	97
Operation and Maintenance of Plant	3,590,827	0	11,174	15,861	3,617,862
Pupil Transportation	3,725,340	0	0	33,981	3,759,321
Central	201,537	0	0	46,385	247,922
Operation of Non-Instructional Services	1,428	0	0	1,786,899	1,788,327
Extracurricular Activities	618,072	0	0	398,171	1,016,243
Capital Outlay	0	0	674,006	0	674,006
Debt Service:					
Principal Retirement	766,000	2,165,000	400,000	0	3,331,000
Interest and Fiscal Charges	226,378	1,946,942	105,391	0	2,278,711
Total Disbursements	37,596,680	4,174,160	1,213,299	4,365,434	47,349,573
Excess of Receipts Over (Under) Disbursements	3,826,591	(13,034)	434	464,986	4,278,977
Other Financing Sources (Uses):					
Refund of Prior Year Expenditures	168,450	0	0	23,426	191,876
Proceeds from Sale of Capital Assets	2,734	0	0	0	2,734
Transfers - In	3,323	0	0	0	3,323
Refund of Prior Year Receipts	(12,261)	0	0	(82,203)	(94,464)
Advances - In	68,915	0	0	67,578	136,493
Transfers - Out	0	0	0	(3,323)	(3,323)
Advances - Out	(67,578)	0	0	(68,915)	(136,493)
Total Other Financing Sources (Uses)	163,583	0	0	(63,437)	100,146
Net Change in Fund Balances	3,990,174	(13,034)	434	401,549	4,379,123
Fund Balances at Beginning of Year - Restated					
See Note 14	3,542,846	1,533,473	937,013	694,909	6,708,241
Fund Balances at End of Year	\$7,533,020	\$1,520,439	\$937,447	\$1,096,458	\$11,087,364

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, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Taxes	\$18,731,092	\$19,622,168	\$19,800,654	\$178,486
Intergovernmental	20,536,661	20,923,218	20,809,158	(114,060)
Interest	250,000	304,843	319,979	15,136
Tuition and Fees	85,000	103,208	112,471	9,263
Extracurricular	0	9,630	9,634	4
Gifts and Donations	0	2,000	8,099	6,099
Charges for Services	0	20,368	20,368	0
Rent	50,000	75,000	79,249	4,249
Miscellaneous	512,481	347,367	263,659	(83,708)
Total Revenues	40,165,234	41,407,802	41,423,271	15,469
Expenditures:				
Current:				
Instruction:				
Regular	17,401,741	15,840,823	16,493,723	(652,900)
Special	2,430,593	2,871,242	2,635,906	235,336
Vocational	53,488	46,126	45,704	422
Other	92,247	1,709,282	1,710,050	(768)
Support Services:				
Pupils	1,972,300	2,376,931	2,228,788	148,143
Instructional Staff	2,275,950	2,275,660	2,106,869	168,791
Board of Education	43,368	32,368	28,322	4,046
Administration	2,675,671	2,732,034	2,521,961	210,073
Fiscal	902,267	901,580	805,710	95,870
Business	0	40	97	(57)
Operation and Maintenance of Plant	3,797,097	3,883,855	3,646,893	236,962
Pupil Transportation	4,067,828	4,181,071	4,292,415	(111,344)
Central	332,470	262,504	208,269	54,235
Operation of Non-Instructional Services	9,809	9,959	1,428	8,531
Extracurricular Activities	662,721	662,721	618,072	44,649
Debt Service:				
Principal	766,000	766,000	766,000	0
Interest	241,668	241,668	226,378	15,290
Total Expenditures	37,725,218	38,793,864	38,336,585	457,279
Excess of Revenues Over Expenditures	2,440,016	2,613,938	3,086,686	472,748
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	0	(10,000)	(12,261)	(2,261)
Refund of Prior Year Expenditures	50,000	50,000	168,450	118,450
Proceeds from Sale of Capital Assets	0	2,734	2,734	0
Advances - In	64,766	126,681	68,915	(57,766)
Advances - Out	(205,000)	(200,000)	(67,578)	132,422
Transfers - In	0	3,323	3,323	0
Other Financing Uses	(15,000)	0	0	0
Total Other Financing Sources (Uses)	(105,234)	(27,262)	163,583	190,845
Net Change in Fund Balances	2,334,782	2,586,676	3,250,269	663,593
Fund Balances at Beginning of Year	2,734,911	2,734,911	2,734,911	0
Prior Year Encumbrances Appropriated	807,935	807,935	807,935	0
Fund Balances at End of Year	\$5,877,628	\$6,129,522	\$6,793,115	\$663,593

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2008

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$205,041	\$98,401
Net Assets:		
Restricted for Students	0	98,401
Held in Trust for Scholarships	205,041	0
Total Net Assets	\$205,041	\$98,401

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, 2008

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$11,963
Gifts and Donations	8,504
Total Additions	20,467
Deductions:	
Payments in Accordance with Trust Agreements	19,189
Change in Net Assets	1,278
Net Assets Beginning of Year	203,763
Net Assets End of Year	\$205,041

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, 2008

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 230 non-certified employees, 313 certified full time teaching personnel, who provide services to 5,396 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2008

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, 2008

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, 2008

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 2008, the District's investments included money market funds, a Federal Agricultural Mortgage Association Note, Federal Home Loan Mortgage Association Notes, Federal Home Loan Bank Notes, 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 2008 were \$319,979, which included \$106,188 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 \$3,691,113 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 and the textbooks/instructional materials set aside.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Cash Basis	\$3,990,174
Transfers	(3,323)
Adjustment for Encumbrances	<u>(739,905)</u>
Budget Basis	<u><u>\$3,246,946</u></u>

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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, 2008

NOTE 4 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. 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 2008 is 6.25 percent. This will be reduced to 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 District prior to June 30.

The District receives property taxes from Warren County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 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 2008 taxes were collected are:

	<u>2007 Second- Half Collections</u>		<u>2008 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$756,597,120	94.53%	\$786,994,640	96.52%
Public Utility	20,998,200	2.62%	16,281,510	1.99%
Tangible Personal Property	<u>22,839,587</u>	<u>2.85%</u>	<u>12,023,390</u>	<u>1.49%</u>
Total Assessed Value	<u>\$800,434,907</u>	<u>100.00%</u>	<u>\$815,299,540</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$62.21		\$62.01	

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, 2008.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008

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, \$5,347,442 of the District's bank balance of \$5,447,442 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 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, 2008, the District had the following investments. All investments are in an internal investment pool.

Investment Type (Cost)	Investment Maturities (in years)		
	Fair Value	1-2	Greater than 2
Money Market Funds (\$39,864)	\$39,864	\$0	\$0
Federal Agricultural Mortgage Association Note (\$200,000)	199,680	199,680	0
Federal Home Loan Bank Notes (\$750,000)	748,435	748,435	0
Federal Home Loan Mortgage Association Notes (\$849,540)	847,855	647,535	200,320
Federal National Mortgage Association Discount Note (\$194,847)	196,380	196,380	0
Certificate of Deposit (\$42,000)	41,999	41,999	0
Certificate of Deposit (\$17,000)	17,000	17,000	0
Certificate of Deposit (\$168,967)	170,093	170,093	0
STAR Ohio (\$4,480,608)	4,480,608	0	0
Total Investments	\$6,741,914	\$2,021,122	\$200,320

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Credit Risk: The Federal Agricultural Mortgage Association Note, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Association Notes, and the Federal National Mortgage Association Notes carry a rating of Aaa by Moody's. STAR Ohio's rating as of June 30, 2008 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 68 percent of the District's total investments. The District's investment in Federal Home Loan Bank Notes represents 11 percent of the District's total investments while the District's investment in Federal Home Loan Mortgage Association Notes represents 13 percent of the District's total investments.

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 2008, the District contracted with the Ohio School Plan for general liability insurance with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate with a \$2,500 deductible. Property is protected by the Ohio School Plan and holds a \$1,000 deductible.

The maintenance vehicles and grounds equipment are insured by the Ohio School Plan with a \$1,000 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 2008, 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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 – DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$553,572, \$603,009 and \$594,833 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 – DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,297,207, \$2,239,961, and \$2,209,505 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, none of the members of the Board of Education have elected Social Security.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$189,321, \$206,229, and \$192,280 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$39,886, \$37,617, and \$37,107 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$176,708, \$172,305, and \$169,961 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 9 – SHORT-TERM OBLIGATIONS

As of June 30, 2008, the District had one short-term tax anticipation note outstanding. The activity for short-term obligations during the fiscal year is as follows:

	Amount Outstanding July 1, 2007	Additions	Deductions	Amount Outstanding June 30, 2008
Bond Retirement Fund:				
Bond Anticipation Note – 4.20%	\$850,000	\$0	\$850,000	\$0
Tax Anticipation Note – 2006, 3.7%	1,420,000	0	695,000	725,000
Totals	\$2,270,000	\$0	\$1,545,000	\$725,000

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. This note was paid off in fiscal year 2008.

In fiscal year 2006, the 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. This note will be paid off in fiscal year 2009.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2008 were as follows:

	Amount Outstanding 7/1/2007	Additions	Deductions	Amount Outstanding 6/30/08
Governmental Activities				
General Obligation Bonds:				
Ohio School Facilities Construction And Improvement Bonds – 2002, 5.11%	\$4,700,000	\$0	\$665,000	\$4,035,000
New School Construction Bond – 2002, 5.10%	619,999	0	130,000	489,999
June 5, 2006 Refunding of General Obligation Bonds	17,759,965	0	345,000	17,414,965
2007 Refunding of General Obligation Bonds	22,179,987	0	175,000	22,004,987
Capital Leases:				
COPS Capital Lease	3,350,000	0	71,000	3,279,000
OASBO Pool Capital Lease	2,408,000	0	400,000	2,008,000
Total Governmental Activities Long – Term Liabilities	\$51,017,951	\$0	\$1,786,000	\$49,231,951

General Obligation Bonds

In fiscal year 2002, the 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 2006 and the 2007 refunding bonds were used to advance refund the bonds due December 1, 2029. There was no cash effect to this refunding.

Capital Leases:

In fiscal year 2004, the 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 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.

All general obligation debt is supported by the full faith and credit of the District. The school construction bonds will be paid from the debt service fund. At June 30, 2008, the District's overall legal debt limitation was \$23,488,297, and the unvoted debt margin was \$799,165.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2008, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$2,585,000	\$2,103,271	\$4,688,271
2010	2,790,000	1,990,479	4,780,479
2011	3,310,000	1,860,200	5,170,200
2012	2,050,027	1,863,753	3,913,780
2013	2,220,972	1,770,798	3,991,770
2014-2018	10,894,965	9,707,320	20,602,285
2019-2023	9,567,987	6,737,224	16,305,211
2024-2028	11,434,000	2,341,583	13,775,583
2029-2031	4,379,000	192,015	4,571,015
Total	<u>\$49,231,951</u>	<u>\$28,566,643</u>	<u>\$77,798,594</u>

NOTE 11 - LEASES

The District leases buildings, vehicles and other equipment under noncancelable leases. The District disbursed \$751,805 to pay lease costs for the year ended June 30, 2008. Future lease payments are as follows:

Fiscal Year Ending June 30,	Total Payments
2009	\$738,154
2010	721,515
2011	704,611
2012	687,429
2013	670,973
2014-2018	1,247,923
2019-2023	1,242,674
2024-2028	1,239,457
2029-2031	740,997
Total	<u>7,993,737</u>
Less: Amount Representing Interest	<u>(2,706,737)</u>
Present Value of Net Minimum Lease Payments	<u>\$5,287,000</u>

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Southwest Ohio Computer Association

The District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The District paid SWOCA \$100,348 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 2008, 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 2008, the District paid \$0 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, 2008**

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 City 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 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.

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0
Current Year Set-aside Requirement	785,812	785,812
Carryover from Prior Year	(120,176)	0
Qualifying Disbursements	(528,867)	0
Current Year Offsets	0	(992,461)
Total	\$136,769	(\$206,649)
Set-aside Balance Carried Forward to Future Fiscal Years	\$136,769	\$0
Set-aside Reserve Balance as of June 30, 2008	\$136,769	\$0

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 13 – SET- ASIDE CALCULATION (continued)

The District had offsets during the fiscal year that reduced the capital improvements amount below zero. The qualifying disbursements for the textbooks/instructional materials set-aside were not enough to reduce the amount below zero; therefore, the resulting amount of \$136,769 is reserved on the balance sheet and restricted on the statement of net assets with a corresponding restricted cash balance.

NOTE 14 – RESTATEMENT OF FUND BALANCE AND NET ASSETS

The District made some fund reclassifications during fiscal year 2008. This restatement had the following effect on the fund balance for the non-major governmental funds of the District as previously reported:

	Non-Major Governmental Funds
Fund Balance at June 30, 2007	\$703,241
Cash Adjustments	(8,332)
Adjusted Fund Balance at June 30, 2007	\$694,909

This adjustment had the following effect on net assets at the beginning of the year:

Governmental Activities Net Assets June 30, 2007	\$6,716,573
Government-Wide Financial Statement Adjustments:	
Cash and Cash Equivalents	(8,332)
Adjusted Governmental Activities Net Assets June 30, 2007	\$6,708,241

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, 2008.

B. Litigation

The District was a party to legal proceedings at June 30, 2008. The District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 16 - INTERFUND TRANSFERS

The General Fund had transfers in from the Other Governmental Funds of \$3,323. This was to move balance of an inactive fund into the General Fund.

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the District has implemented GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pension Plans*" and GASB Statement No. 50, "*Pension Disclosures*".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The implementation of this Statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this Statement did not result in any change to the financial statements.

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.

Status: Corrected in the current year

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.

Status: See current year finding 2008-1

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.

Status: See current year finding 2008-2

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.

Status: See current year finding 2008-3

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.

Status: Corrected in the current year.

LEBANON CITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

<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	\$ -	-
Nutrition Cluster:				
School Breakfast Program	05PU	10.553	77,540	71,938
National School Lunch Program	LLP4	10.555	<u>477,715</u>	<u>483,317</u>
Nutrition Cluster Total			<u>555,255</u>	<u>555,255</u>
Emergency Food Assistance Program		10.569	<u>116,986</u>	<u>116,986</u>
Total U.S. Department of Agriculture			<u>672,241</u>	<u>672,241</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1-2007	84.010	97,814	77,606
Title I Grants to Local Educational Agencies	C1S1-2008	84.010	380,604	406,967
Title I Program for Neglected & Delinquent Children	C1SD-2008	84.013	48,174	48,174
Special Education Cluster:				
Special Education - Grants to States	6BSF-2007	84.027	102,705	98,620
Special Education - Grants to States	6BSF-2008	84.027	951,766	982,094
Special Education - Preschool Grants	PGS1/PGD7-2008	84.173	<u>9,401</u>	<u>9,401</u>
Special Education Cluster Total			<u>1,063,872</u>	<u>1,090,116</u>
Safe and Drug-Free Schools and Communities - State Grants	DRS1-2007	84.186	2,619	3,485
Safe and Drug-Free Schools and Communities - State Grants	DRS1-2008	84.186	15,309	14,756
State Grants for Innovative Programs	C2S1-2007	84.298	-	395
State Grants for Innovative Programs	C2S1-2008	84.298	12,832	33,686
Education Technology State Grants	TJSL-2008	84.318	535	400
English Language Acquisition Grant	T3S2-2007	84.365	781	-
English Language Acquisition Grant	T3S2-2008	84.365	8,084	8,284
Improving Teacher Quality State Grants	TRS1-2007	84.367	19,873	22,187
Improving Teacher Quality State Grants	TRS1-2008	84.367	<u>134,289</u>	<u>107,755</u>
Total U.S. Department of Education			<u>1,784,788</u>	<u>1,813,810</u>
Total Federal Awards			\$ <u>2,457,029</u>	<u>2,486,051</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, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 14, 2009, 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 opinions 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 the cash basis of accounting 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.

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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 2008-1 through 2008-3.

We noted certain matters that we reported to management of the School District in a separate letter dated January 14, 2009.

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

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 14, 2009

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 (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, 2008. The 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 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, 2008.

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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 the 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 an entity'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 an 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 an 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity'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.

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

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
January 14, 2009

Lebanon City School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2008

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
Significant deficiency(ies) identified not considered to be material weakness(es)?	none
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	no
Significant deficiency(ies) identified not considered to be material weakness(es)?	no

Type of auditors' report issued on compliance for major programs:	unqualified
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Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	no
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Identification of major programs:

Special Education – Grants to States (CFDA 84.027)

Special Education – Preschool Grants (CFDA 84.173)

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
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Auditee qualified as low-risk auditee?	yes
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Section II - Financial Statement Findings

NONCOMPLIANCE

2008-1 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 2008 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 2009, 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.

2008-2 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 \$68,967 in funds for which the District did not obtain Pooled Collateral Statements and was uninsured and uncollateralized.

Management Response: During fiscal year 2008, 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, 2008. 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.

2008-3 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, 2008 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, 2008 the School District had five funds 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.

In addition, the treasurer's office has begun to compile the same spreadsheet that checks appropriations and estimated receipts monthly that the auditors use to eliminate the chance of this happening in the future

Section III - Federal Award Findings and Questioned Costs

- None -



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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 24, 2009