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# Lebanon City School District

Basic Financial Statements

Year Ended June 30, 2010

with Independent Auditors' Report







# Dave Yost • 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, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

January 27, 2011

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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, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified 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, 2010, and the respective changes in modified 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 December 17, 2010 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 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 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.



Middletown, Ohio  
December 17, 2010

**Lebanon City School District, Ohio**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**Unaudited**

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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, 2010. The discussion and analysis is within the limitations of the District's modified 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 decreased by \$397,354 or 3.34%. The General Fund reported a fund balance of \$7,622,445.
- General receipts accounted for \$46,744,120 in revenue or 88.42% of all revenues. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$6,123,201 or 11.58% of total revenues of \$52,867,321.
- The District had \$53,264,675 in cash disbursements to governmental activities; only \$6,123,201 of these expenses was offset by program specific charges for services, grants or contributions. General receipts (primarily property taxes and entitlements) of \$46,744,120 were also used to provide for these services.
- Among major funds, the general fund had \$40,541,954 in receipts and \$41,573,304 in disbursements. The general fund's fund balance decreased \$895,998 from fiscal year 2009.

**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 District's modified 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, 2010**  
**Unaudited**

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**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 modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified 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 modified 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 2010, within the limitations of modified 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 modified 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, 2010**  
**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** – The School 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 fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Fiduciary Funds** – The District maintains two fiduciary funds, an agency fund and a private purpose trust 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 2010 and 2009:

(Table 1)  
**Net Assets**

	Governmental Activities 2010	2009	% of Change
<b>Assets</b>			
Cash and Investments	\$11,198,416	\$11,655,508	-3.92%
Restricted Cash	296,779	237,041	25.20%
<b>Total Assets</b>	<b>\$11,495,195</b>	<b>\$11,892,549</b>	<b>-3.34%</b>
<b>Net Assets Invested in:</b>			
<b>Restricted</b>			
Other Purposes	\$1,515,022	\$1,109,130	36.60%
Set Asides	296,779	237,041	25.20%
Debt Service	1,683,819	1,702,430	-1.09%
Capital Projects	673,909	562,546	19.80%
<b>Unrestricted</b>	<b>7,325,666</b>	<b>8,281,402</b>	<b>-11.54%</b>
<b>Total Net Assets</b>	<b>\$11,495,195</b>	<b>\$11,892,549</b>	<b>-3.34%</b>

Total assets decreased by \$397,354. The decrease can be attributed in part to the use of the District's cash reserves in order to satisfy current expenses due to increasing costs as a result of inflation.

**Lebanon City School District, Ohio**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**Unaudited**

Table 2 demonstrates the changes in net assets for fiscal year 2010. The District experienced a .21% increase in total general receipts during 2010. This is attributable to the influx of State Fiscal Stabilization Funds.

(Table 2)  
**Change in Net Assets**

	Governmental Activities		% of
	2010	2009	Change
<b>Revenues</b>			
Program Receipts:			
Charges for Services	\$2,054,109	\$2,126,066	-3.38%
Operating Grants, Interest and Contributions	4,069,092	2,539,586	60.23%
<b>Total Program Receipts</b>	<b>6,123,201</b>	<b>4,665,652</b>	<b>31.24%</b>
General Receipts:			
Property Taxes			
General Purposes	19,114,217	19,466,282	-1.81%
Debt Service	3,611,101	3,703,241	-2.49%
Capital Projects	967,508	988,095	-2.08%
Grants and Entitlements not Restricted to			
Specific Programs	22,604,151	21,914,747	3.15%
Revenue in Lieu of Taxes	166,261	119,872	38.70%
Investment Earnings	36,477	215,569	-83.08%
Gifts and Donations	5,599	25,177	-77.76%
Miscellaneous	238,806	215,389	10.87%
<b>Total General Receipts</b>	<b>46,744,120</b>	<b>46,648,372</b>	<b>0.21%</b>
<b>Total All Receipts</b>	<b>\$52,867,321</b>	<b>\$51,314,024</b>	<b>3.03%</b>

(Continued)

Expenditures increased by \$2,755,836 or 5.46% from 2009. The increase can be primarily attributed to expenditures related to the receipt and expenditure of Federal Stimulus Funds and inflationary increases related to District expenditure line items. Salary and benefit cost increases represent a significant portion of the increase. In 2010, base wages were increased 2.61%, in addition to the contractually mandated step increases across all employee classifications. In addition, health insurance benefits increased 21.30% during the same time period. While all other expenditure line items increased at their approximate historical rate, it is important to note that Federal Stimulus Funds received by the District also came with additional spending guidelines impacting district expenditures.

**Lebanon City School District, Ohio**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**Unaudited**

(Table 2)  
**Change in Net Assets**  
(Continued)

	Governmental Activities		% of Change
	2010	2009	
<b>Cash Disbursements</b>			
Instruction			
Regular	\$19,018,142	\$17,892,839	6.29%
Special	4,941,547	4,118,691	19.98%
Vocational	43,973	45,341	-3.02%
Other	2,565,680	1,943,637	32.00%
Support Services			
Pupils	2,307,909	2,057,148	12.19%
Instructional Staff	2,825,080	2,486,015	13.64%
Board of Education	52,409	51,842	1.09%
Administration	2,982,466	2,686,160	11.03%
Fiscal	1,177,711	895,188	31.56%
Business	60	12	400.00%
Operation of Maintenance of Plant	3,770,799	3,650,500	3.30%
Pupil Transportation	4,828,173	4,949,717	-2.46%
Central	293,685	251,708	16.68%
Operating of Non-Instructional Services	1,929,972	1,937,873	-0.41%
Extracurricular Activities	1,120,360	1,063,883	5.31%
Capital Outlay	623,657	1,045,891	-40.37%
Debt Service	4,783,052	5,432,394	-11.95%
<b>Total Cash Disbursements</b>	<b>53,264,675</b>	<b>50,508,839</b>	<b>5.46%</b>
<b>Change in Net Assets</b>	<b>(\$397,354)</b>	<b>\$805,185</b>	<b>-149.35%</b>

**Governmental Activities**

The District receives 44.82% of its revenue from property taxes and 42.76% from grants and entitlements. The balance of revenue received, or 12.42%, is in the form of program revenues, investment income, gifts and donations, and miscellaneous items.

Expenses for instruction represent 49.88% of the total governmental expenses. Support services represent 34.24% of the total expenses. The remaining 15.88% of expenses are distributed to food services, community services, extracurricular activities, capital outlay and debt service.

**Lebanon City School District, Ohio**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**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 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009	% of Change in Net Cost
Instruction	\$26,569,342	23,706,379	\$24,000,508	22,219,522	6.69%
Support Services	18,238,292	17,645,327	17,028,290	16,563,985	6.53%
Operation of Non-Instructional Services	1,929,972	(319,447)	1,937,873	(43,205)	639.38%
Extracurricular Activities	1,120,360	702,506	1,063,883	624,600	12.47%
Capital Outlay	623,657	623,657	1,045,891	1,045,891	-40.37%
Debt Service	4,783,052	4,783,052	5,432,394	5,432,394	-11.95%
Total Cash Disbursements	<u>\$53,264,675</u>	<u>\$47,141,474</u>	<u>\$50,508,839</u>	<u>\$45,843,187</u>	<u>2.83%</u>

**The District's Funds**

Total governmental funds had receipts of \$52,807,080 and disbursements of \$53,266,603. The greatest changes within governmental funds occurred within the General Fund and the other governmental funds. The fund balance of the General Fund decreased \$895,998. The fund balances in the other governmental funds increased by \$457,687. This increase was due to the receipt of American Recovery and Reinvestment dollars in federal grants such as IDEA, Part B, Title I and Early Childhood Education as well as the State Fiscal Stabilization Funds. The decrease in the General Fund is primarily due to increases in both employee wages and health care premiums. Other expenditure line items experienced increases as well contributing to the need to utilize current cash reserves to pay for current expenses. This trend is expected to continue into the future unless an additional tax levy is approved, a significant cut to programs and services occurs or some combination of those two options is realized.

**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 2010, 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 \$1,396,373 above the final budgeted amount.

**Lebanon City School District, Ohio**  
**Management's Discussion and Analysis**  
**June 30, 2010**  
**Unaudited**

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**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, 2010, the District had outstanding debt of \$39,524,951 in general obligation bonds issued for new construction and improvements, and \$4,332,000 in capital leases for facilities and equipment. At June 30, 2010, the School District's overall legal debt limitation was \$30,446,202, and the unvoted debt margin was \$774,086. The District currently has bond ratings of AA+ from Standard & Poor and Baa1 from Moody's Investor Services. Further information regarding the District's debt can be found in Note 9 to the basic financial statements.

**The Future of Lebanon City School District**

In November 2010, the voters renewed the emergency tax levy that was originally approved in November of 2005. While this levy does not provide additional revenue for the District, its passage was critical in solidifying the collection of this tax revenue for an additional three years. In addition to this emergency levy, the School District will need to return to the ballot in May of 2011 to request additional operating funds due to declining revenues and increasing expenditures. Additional funds will be essential to allow the District to sustain its current programs, services and staff. 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](http://www.lebanon.k12.oh.us/finance) which provides additional detail regarding the financial outlook.

**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](mailto:Sotzing.Eric@lebanon.k12.oh.us).

**Lebanon City School District, Ohio**  
**Statement of Net Assets - Modified Cash Basis**  
**June 30, 2010**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$11,198,416
Restricted Cash and Cash Equivalents	296,779
<b>Total Assets</b>	<b>\$11,495,195</b>
Net Assets:	
Restricted for:	
Other Purposes	\$1,515,022
Set Asides	296,779
Debt Service	1,683,819
Capital Projects	673,909
Unrestricted	7,325,666
<b>Total Net Assets</b>	<b>\$11,495,195</b>

See Accompanying Notes to the Basic Financial Statements

**Lebanon City School District, Ohio**  
**Statement of Activities - Modified Cash Basis**  
**For the Fiscal Year Ended June 30, 2010**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants, Interest and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$19,018,142	\$266,127	\$182,038	(\$18,569,977)
Special	4,941,547	0	1,836,189	(3,105,358)
Vocational	43,973	0	44,377	404
Other	2,565,680	174,836	359,396	(2,031,448)
Support Services:				
Pupils	2,307,909	0	56,066	(2,251,843)
Instructional Staff	2,825,080	16,642	218,334	(2,590,104)
Board of Education	52,409	0	0	(52,409)
Administration	2,982,466	0	116,124	(2,866,342)
Fiscal	1,177,711	0	0	(1,177,711)
Business	60	0	0	(60)
Operation and Maintenance of Plant	3,770,799	68,659	0	(3,702,140)
Pupil Transportation	4,828,173	0	93,607	(4,734,566)
Central	293,685	0	23,533	(270,152)
Operation of Non-Instructional Services	1,929,972	1,189,311	1,060,108	319,447
Extracurricular Activities	1,120,360	338,534	79,320	(702,506)
Capital Outlay	623,657	0	0	(623,657)
Debt Service	4,783,052	0	0	(4,783,052)
<b>Total Governmental Activities</b>	<b>\$53,264,675</b>	<b>\$2,054,109</b>	<b>\$4,069,092</b>	<b>(47,141,474)</b>

**General Receipts:**

Property Taxes Levied for:

General Purposes	19,114,217
Debt Service	3,611,101
Capital Outlay	967,508
Grants and Entitlements not Restricted to Specific Programs	22,604,151
Payment in Lieu of Taxes	166,261
Investment Earnings	36,477
Gifts and Donations	5,599
Miscellaneous	238,806
<b>Total General Receipts</b>	<b>46,744,120</b>

Change in Net Assets (397,354)

Net Assets Beginning of Year 11,892,549

Net Assets End of Year \$11,495,195

See Accompanying Notes to the Basic Financial Statements



**Lebanon City School District, Ohio**  
**Statement of Modified Cash Basis Assets and Fund Balances**  
**Governmental Funds**  
**June 30, 2010**

	GENERAL	DEBT SERVICE	PERMANENT IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Assets:</b>					
Equity in Pooled Cash and Investments	\$7,325,666	\$1,683,819	\$568,926	\$1,620,005	\$11,198,416
Restricted Cash and Cash Equivalents	296,779	0	0	0	296,779
<b>Total Assets</b>	<b>\$7,622,445</b>	<b>\$1,683,819</b>	<b>\$568,926</b>	<b>\$1,620,005</b>	<b>\$11,495,195</b>
<b>Fund Balances:</b>					
Reserved for Encumbrances	769,687	0	38,459	191,254	999,400
Reserved for Textbooks/Instructional Materials	296,779	0	0	0	296,779
Unreserved, Undesignated, Reported in:					
General Fund	6,555,979	0	0	0	6,555,979
Special Revenue Funds	0	0	0	1,323,768	1,323,768
Debt Service Fund	0	1,683,819	0	0	1,683,819
Capital Projects Funds	0	0	530,467	104,983	635,450
<b>Total Fund Balances</b>	<b>\$7,622,445</b>	<b>\$1,683,819</b>	<b>\$568,926</b>	<b>\$1,620,005</b>	<b>\$11,495,195</b>

See Accompanying Notes to the Basic Financial Statements

**Lebanon City School District, Ohio**  
**Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

	GENERAL	DEBT SERVICE	PERMANENT IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Receipts:</b>					
Property and Other Taxes	\$19,114,217	\$3,611,101	\$967,508	\$0	\$23,692,826
Intergovernmental	20,859,267	479,888	206,737	5,032,915	26,578,807
Interest	33,483	1,991	708	494	36,676
Tuition and Fees	174,836	0	0	258,852	433,688
Rent	68,659	0	0	3,180	71,839
Extracurricular Activities	0	0	0	336,047	336,047
Gifts and Donations	4,876	0	723	46,817	52,416
Charges for Services	23,023	0	25,000	1,183,557	1,231,580
Payment in Lieu of Taxes	166,261	0	0	0	166,261
Miscellaneous	95,404	0	0	109,608	205,012
<b>Total Receipts</b>	<b>40,540,026</b>	<b>4,092,980</b>	<b>1,200,676</b>	<b>6,971,470</b>	<b>52,805,152</b>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	17,665,941	0	33,750	1,318,451	19,018,142
Special	3,161,507	0	0	1,780,040	4,941,547
Vocational	43,973	0	0	0	43,973
Other	2,143,589	0	0	422,091	2,565,680
<b>Support Services:</b>					
Pupils	2,252,916	0	0	54,993	2,307,909
Instructional Staff	2,594,522	0	0	230,558	2,825,080
Board of Education	52,409	0	0	0	52,409
Administration	2,862,363	5,889	1,602	112,612	2,982,466
Fiscal	1,121,319	44,166	12,226	0	1,177,711
Business	60	0	0	0	60
Operation and Maintenance of Plant	3,746,668	0	5,830	18,301	3,770,799
Pupil Transportation	4,735,282	0	0	92,891	4,828,173
Central	253,459	0	0	40,226	293,685
Operation of Non-Instructional Services	1,403	0	0	1,928,569	1,929,972
Extracurricular Activities	685,880	0	0	434,480	1,120,360
Capital Outlay	0	0	616,269	7,388	623,657
<b>Debt Service:</b>					
Principal Retirement	79,000	2,310,000	401,000	0	2,790,000
Interest and Fiscal Charges	171,085	1,751,536	70,431	0	1,993,052
<b>Total Disbursements</b>	<b>41,571,376</b>	<b>4,111,591</b>	<b>1,141,108</b>	<b>6,440,600</b>	<b>53,264,675</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>(1,031,350)</b>	<b>(18,611)</b>	<b>59,568</b>	<b>530,870</b>	<b>(459,523)</b>
<b>Other Financing Sources (Uses):</b>					
Refund of Prior Year Receipts	(14,111)	0	0	(32,045)	(46,156)
Refund of Prior Year Expenditures	105,670	0	0	2,655	108,325
Advances - In	856,447	1,425	156,758	367,464	1,382,094
Advances - Out	(812,654)	(1,425)	(156,758)	(411,257)	(1,382,094)
<b>Total Other Financing Sources (Uses)</b>	<b>135,352</b>	<b>0</b>	<b>0</b>	<b>(73,183)</b>	<b>62,169</b>
<b>Net Change in Fund Balances</b>	<b>(895,998)</b>	<b>(18,611)</b>	<b>59,568</b>	<b>457,687</b>	<b>(397,354)</b>
<b>Fund Balances at Beginning of Year</b>	<b>8,518,443</b>	<b>1,702,430</b>	<b>509,358</b>	<b>1,162,318</b>	<b>11,892,549</b>
<b>Fund Balances at End of Year</b>	<b>\$7,622,445</b>	<b>\$1,683,819</b>	<b>\$568,926</b>	<b>\$1,620,005</b>	<b>\$11,495,195</b>

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, 2010**

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Property and Other Taxes	\$19,400,000	\$19,400,000	\$19,114,217	(\$285,783)
Intergovernmental	21,237,000	21,237,000	20,859,267	(377,733)
Interest	150,000	150,000	33,483	(116,517)
Tuition and Fees	117,425	130,070	174,836	44,766
Rent	80,000	80,000	68,659	(11,341)
Gifts and Donations	1,500	1,500	4,876	3,376
Charges for Services	0	18,551	23,023	4,472
Payment in Lieu of Taxes	0	0	166,261	166,261
Miscellaneous	123,124	123,124	95,404	(27,720)
<b>Total Revenues</b>	<b>41,109,049</b>	<b>41,140,245</b>	<b>40,540,026</b>	<b>(600,219)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	19,550,458	19,755,800	17,788,988	1,966,812
Special	2,962,248	2,980,172	3,163,202	(183,030)
Vocational	47,264	46,304	44,633	1,671
Other	1,913,542	2,182,829	2,176,480	6,349
<b>Support Services:</b>				
Pupils	2,407,378	2,126,043	2,268,020	(141,977)
Instructional Staff	2,619,546	2,583,375	2,597,015	(13,640)
Board of Education	56,155	65,316	59,319	5,997
Administration	2,939,755	2,852,087	2,873,000	(20,913)
Fiscal	462,979	1,179,034	1,127,170	51,864
Business	100	100	60	40
Operation and Maintenance of Plant	4,151,507	4,141,012	3,788,316	352,696
Pupil Transportation	5,060,148	4,819,130	5,254,087	(434,957)
Central	264,646	282,126	261,391	20,735
Operation of Non-Instructional Services	2,150	2,275	1,403	872
Extracurricular Activities	746,809	746,809	685,880	60,929
Capital Outlay	0	2,015	2,015	0
<b>Debt Service:</b>				
Principal Retirement	79,000	79,000	79,000	0
Interest and Fiscal Charges	171,085	171,085	171,085	0
<b>Total Expenditures</b>	<b>43,434,770</b>	<b>44,014,512</b>	<b>42,341,064</b>	<b>1,673,448</b>
<b>Excess of Revenues Under Expenditures</b>	<b>(2,325,721)</b>	<b>(2,874,267)</b>	<b>(1,801,038)</b>	<b>1,073,229</b>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Receipts	(25,000)	(32,410)	(14,111)	18,299
Refund of Prior Year Expenditures	80,000	80,000	105,670	25,670
Advances - In	164,618	164,618	856,447	691,829
Advances - Out	(200,000)	(200,000)	(812,654)	(612,654)
Transfers - Out	(200,000)	(200,000)	0	200,000
<b>Total Other Financing Sources (Uses)</b>	<b>(180,382)</b>	<b>(187,792)</b>	<b>135,352</b>	<b>323,144</b>
<b>Net Change in Fund Balance</b>	<b>(2,506,103)</b>	<b>(3,062,059)</b>	<b>(1,665,686)</b>	<b>1,396,373</b>
Fund Balance at Beginning of Year	7,837,001	7,837,001	7,837,001	0
Prior Year Encumbrances Appropriated	681,442	681,442	681,442	0
<b>Fund Balance at End of Year</b>	<b>\$6,012,340</b>	<b>\$5,456,384</b>	<b>\$6,852,757</b>	<b>\$1,396,373</b>

See Accompanying Notes to the Basic Financial Statements

**Lebanon City School District, Ohio**  
**Statement of Fiduciary Net Assets - Modified Cash Basis**  
**Fiduciary Funds**  
**June 30, 2010**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$191,104	\$95,386
Net Assets:		
Restricted for Students	0	95,386
Held in Trust for Scholarships	191,104	0
Total Net Assets	\$191,104	\$95,386

See Accompanying Notes to the Basic Financial Statements

**Lebanon City School District, Ohio**  
**Statement of Changes in Fiduciary Net Assets - Modified Cash Basis**  
**Fiduciary Fund**  
**For the Fiscal Year Ended June 30, 2010**

	Private Purpose Trust
Additions:	
Interest	\$384
Miscellaneous	1,928
Gifts and Donations	8,161
Total Additions	10,473
Deductions:	
Payments in Accordance with Trust Agreements	14,100
Total Deductions	14,100
Change in Net Assets	(3,627)
Net Assets Beginning of Year	194,731
Net Assets End of Year	\$191,104

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, 2010**

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**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 267 non-certified employees, 307 certified full time personnel, who provide services to 5,459 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 11 to the basic financial statements.

As discussed further in section C of Note 2, these financial statements are presented on a modified cash basis of accounting. This 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 modified 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, 2010**

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**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, 2010**

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**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 modified 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 modified 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, 2010**

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**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 2010, the District's investments included money market funds, Federal Home Loan Mortgage Association Notes, Federal Home Loan Bank Notes, a Federal Home Loan Bank Discount 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 2010 were \$33,483, which included \$10,424 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 – modified cash basis reports \$4,169,529 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, 2010**

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**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 revenues, expenditures 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 modified cash basis are outstanding year-end encumbrances treated as cash expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

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

Change in Fund Balance - Modified Cash Basis	(\$895,998)
Adjustment for Encumbrances	<u>(769,688)</u>
Change in Fund Balance - Budget Basis	<u>(\$1,665,686)</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 certain tangible personal property located in the District. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, 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 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 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, 2010**

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**NOTE 4 - PROPERTY TAXES** (continued)

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The tangible personal property taxes received from telephone companies in calendar year 2010 were levied after April 1, 2009, on the value as of December 31, 2009. Payments paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School 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, 2010, are available to finance fiscal year 2010 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 2010 taxes were collected are:

	<u>2009 Second- Half Collections</u>		<u>2010 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$807,441,520	97.40%	\$756,542,250	97.30%
Public Utility	18,705,610	2.26%	19,229,140	2.47%
Tangible Personal Property	<u>2,787,240</u>	<u>0.34%</u>	<u>1,685,870</u>	<u>0.23%</u>
Total Assessed Value	<u>\$828,934,370</u>	<u>100.00%</u>	<u>\$777,457,260</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$61.76		\$62.31	

**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, 2010.

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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**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 percent, 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, 2010**

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**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, \$789,449 of the District's bank balance of \$1,120,692 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, 2010, the District had the following investments. All investments are in an internal investment pool.

<u>Investment Type (Cost)</u>	<u>Investment Maturities (in years)</u>	
	<u>Fair Value</u>	<u>1-2</u>
Money Market Funds (\$15,199)	\$15,199	\$0
Federal Farm Credit Corporation Note (\$155,000)	154,916	154,916
Federal Home Loan Bank Notes (\$999,900)	1,000,078	1,000,078
Federal Home Loan Mortgage Discount Note (\$159,310)	159,328	159,328
Federal Home Loan Mortgage Association Notes (\$354,918)	354,985	354,985
Federal National Mortgage Association Discount Notes (\$382,979)	385,000	385,000
STAR Ohio (\$9,310,327)	9,310,327	0
<b>Total Investments</b>	<b>\$11,379,833</b>	<b>\$2,054,307</b>

*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, 2010**

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

*Credit Risk:* The 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, 2010 from Standard and Poor's is AAAM. 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 82 percent of the District's total investments. The District's investment in Federal Home Loan Bank Notes represents nine percent. The investments in both Federal Home Loan Mortgage Association Notes and Federal National Mortgage Association Notes represents three percent, each, while the investment in Federal Farm Credit Bureau Notes and Federal Home Loan Mortgage Discount Notes were one percent of the District's total investments, respectively. The remaining percentage of investments was represented by a money market account.

**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 2010, the District contracted with the Dakin Insurance Company for general liability insurance with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate with a \$2,500 deductible. Property is protected by the Dakin Insurance Company and holds a \$1,000 deductible.

The maintenance vehicles and grounds equipment are insured by the Dakin Insurance Company 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 2010, the District participated in the Ohio School Board's Association Group Rating Program (GRP), an insurance purchasing pool (Note 11). 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, 2010**

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**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 of Ohio (SERS), a cost sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under *Employer/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year ending June 30, 2010, 12.78 percent of annual covered payroll was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$913,589, \$598,991, and \$553,572 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System**

Plan Description - The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their date of employment to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment.

Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for DB Plan participants.



**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB and Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

Contribution requirements and contributions actually made for the fiscal year ended June 30, 2010, were 10 percent of covered payroll for members and 14 percent for employers. The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,539,514, \$2,434,398, and \$2,297,207 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**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. The District's liability is 6.2 percent of wages paid. As of June 30, 2010, none of the members of the Board of Education have elected Social Security.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

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

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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**NOTE 8 - POSTEMPLOYMENT BENEFITS** (continued)

**A. State Teachers Retirement System**

Plan Description – The School 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](http://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 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008, were \$195,347, \$187,261, and \$176,708 respectively.

**B. School Employee Retirement System**

Plan Description – The School 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 105(e). For 2010, 46 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 2010, 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 School District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008, were \$32,883, \$204,855, and \$189,321 respectively.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was .76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$54,329, \$45,419, and \$39,886 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008..

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

**NOTE 9 - LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2010 were as follows:

	Amount Outstanding 7/1/09	Additions	Deductions	Amount Outstanding 6/30/10	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds:					
Ohio School Facilities Construction And Improvement Bonds – 2002, 4.3%-5.5%	\$3,335,000	\$0	\$730,000	\$2,605,000	\$760,000
New School Construction Bond – 2002, 3.95%-4.25%	354,999	0	140,000	214,999	150,000
June 5, 2006 Refunding of General Obligation Bonds, 3.5%-5%	17,059,965	0	370,000	16,689,965	380,000
2007 Refunding of General Obligation Bonds, 4%-5%	21,084,987	0	1,070,000	20,014,987	1,535,000
Capital Leases:					
COPS Capital Lease	3,204,000	0	79,000	3,125,000	83,000
OASBO Pool Capital Lease	1,608,000	0	401,000	1,207,000	402,000
Total Governmental Activities Long – Term Liabilities	<u>\$46,646,951</u>	<u>\$0</u>	<u>\$2,790,000</u>	<u>\$43,856,951</u>	<u>\$3,310,000</u>

*General Obligation Bonds*

In fiscal year 2002, the District issued \$45,000,000 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 December 1, 2029. 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. These bonds were paid from the Debt Service Fund.

*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. These were paid from the Permanent Improvement Fund.

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 June 1, 2031. These were paid from the General Fund.

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, 2010 the District's overall legal debt limitation was \$30,446,202, and the unvoted debt margin was \$774,086.

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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**NOTE 9 - LONG-TERM OBLIGATIONS** (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2010, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,560,438	2,302,392	3,862,830
2015	1,615,760	2,354,440	3,970,200
2016-2020	12,049,767	7,221,572	19,271,339
2021-2025	9,482,987	5,832,363	15,315,350
2026-2030	11,327,000	1,260,887	12,587,887
2031	240,000	6,486	246,486
Total	<u>\$43,856,951</u>	<u>\$24,472,891</u>	<u>\$68,329,842</u>

**NOTE 10 - LEASES**

The District leases buildings, vehicles and other equipment under noncancelable leases. The District disbursed \$721,515 to pay lease costs for the year ended June 30, 2010. Future lease payments are as follows:

Fiscal Year Ending June 30,	Total Payments
2011	\$704,615
2012	687,429
2013	670,974
2014	250,042
2015	249,613
2016-2020	1,245,851
2021-2025	1,241,914
2026-2030	1,237,144
2031	246,486
Total	<u>6,534,068</u>
Less: Amount Representing Interest	<u>(2,202,068)</u>
Present Value of Net Minimum Lease Payments	<u>\$4,332,000</u>

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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**NOTE 11 – 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 \$101,608 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 2010, the District paid \$2,526 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 2010, the District paid \$4,928 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, 2010**

**NOTE 11- 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 12 – 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, 2009	\$237,041	\$0
Current Year Set-aside Requirement	858,595	858,595
Carryover from Prior Year	0	0
Qualifying Disbursements	(798,857)	(147,913)
Current Year Offsets	0	(967,508)
<b>Total</b>	<b>\$296,779</b>	<b>(\$256,826)</b>
Set-aside Balance Carried Forward to Future		
Fiscal Years	<u>\$296,779</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2010	<u>\$296,779</u>	<u>\$0</u>

**Lebanon City School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

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**NOTE 12 – 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 \$296,779 is reserved on the balance sheet and restricted on the statement of net assets with a corresponding restricted cash balance.

**NOTE 13 - 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, 2010.

**B. Litigation**

The District was a party to legal proceedings at June 30, 2010. 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.

## **NONCOMPLIANCE**

### **2009-1 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.

**Status:** Repeated as current year finding 2010-1.

### **2009-2 Equipment Inventory:**

*Condition:* The School District did not conduct an inventory of equipment purchased with Federal funds within the last two years.

*Criteria:* Per 7 CFR 3015.169, equipment records shall be maintained and every two years, at a minimum, a physical inventory shall be conducted and the results reconciled with the property records to verify existence, current utilization and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences.

*Effect:* Lack of equipment inventories could result in the School District not being able to verify existence, current utilization and continued need for the equipment within the School District's federal programs.

*Cause:* The School District lacked procedures to ensure the proper completion of equipment inventories on a bi-annual basis.

**Status:** Corrected in the current year.



**LEBANON CITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture:</u></b>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	n/a	10.555	\$ 104,309	104,309
<i>Cash Assistance:</i>				
School Breakfast Program	05PU	10.553	100,277	100,277
National School Lunch Program	LLP4	10.555	604,497	604,497
Nutrition Cluster Total			<u>809,083</u>	<u>809,083</u>
Total U.S. Department of Agriculture			<u>809,083</u>	<u>809,083</u>
<b><u>U.S. Department of Education:</u></b>				
<i>(Passed through Ohio Department of Education)</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	C1S1-2009	84.010	150,035	115,134
Title I Grants to Local Educational Agencies	C1S1-2010	84.010	440,928	455,065
ARRA-Title I Grants to Local Educational Agencies	C1S1-2010	84.389	257,030	248,722
Title I, Part A Cluster Total			<u>847,993</u>	<u>818,921</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF-2009	84.027	185,511	101,582
Special Education - Grants to States	6BSF-2010	84.027	805,619	813,645
Special Education - Preschool Grants	PGS1/PGD7-2010	84.173	7,164	7,164
ARRA-Special Education - Grants to States	6BSF-2010	84.391	805,705	832,824
ARRA-Special Education - Preschool Grants	6BSF-2010	84.392	34,255	34,255
Special Education Cluster Total			<u>1,838,254</u>	<u>1,789,470</u>
Safe and Drug-Free Schools and Communities - State Grants	DRS1-2010	84.186	13,322	13,322
State Grants for Innovative Programs	C2S1-2009	84.298	3,255	2,064
Education Technology State Grants	TJSL-2009	84.318	304	-
Education Technology State Grants	TJSL-2010	84.318	462	-
			<u>766</u>	<u>-</u>
English Language Acquisition Grants	T3S2-2009	84.365	963	-
English Language Acquisition Grants	T3S2-2010	84.365	20,238	20,339
			<u>21,201</u>	<u>20,339</u>
Improving Teacher Quality State Grants	TRS1-2008	84.367	37,220	21,174
Improving Teacher Quality State Grants	TRS1-2009	84.367	135,679	136,140
			<u>172,899</u>	<u>157,314</u>
ARRA-State Fiscal Stabilization Fund - Education State Grants	ARRA-2010	84.394	1,102,636	987,346
ARRA-Education for Homeless Children and Youth	ARRA-2010	84.387	2,335	2,335
Total U.S. Department of Education			<u>4,002,661</u>	<u>3,791,111</u>
Total Federal Awards			<u>\$ 4,811,744</u>	<u>4,600,194</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 School 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.

**NOTE C - NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**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, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 17, 2010, wherein we noted that the School District has prepared its financial statements using a modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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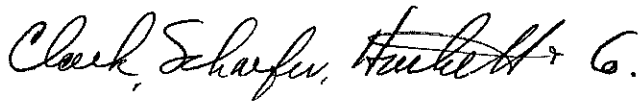
### **Compliance and Other Matters**

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of the School District in a separate letter dated December 17, 2010.

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

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

A handwritten signature in cursive script that reads "Clark Scharfer, Auditor".

Middletown, Ohio  
December 17, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON 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 Lebanon City School District's (the School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-2.

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## Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Clark, Schaefer, Hootch & Co.*

Middletown, Ohio  
December 17, 2010

**Lebanon City School District**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010

**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)?	yes

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)?	yes
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Identification of major programs:

*Nutrition Cluster:*  
 CFDA 10.553 – School Breakfast  
 CFDA 10.555 – National School Lunch

*Special Education Cluster:*  
 CFDA 84.027 – Special Education Grants to States  
 CFDA 84.391 – ARRA-Special Education Grants to States  
 CFDA 84.173 – Special Education Preschool Grants  
 CFDA 84.392 – ARRA-Special Education Preschool Grants

*Title I, Part A Cluster:*  
 CFDA 84.010 – Title I Program  
 CFDA 84.389 – ARRA-Title I Program

CFDA 84.394 – ARRA-State Fiscal Stabilization Fund

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

### 2010-1 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 School District chose again not to report on a GAAP basis for 2010 mainly to avoid the additional audit costs of \$12,000 to \$15,000.

The School District has continued to examine the costs vs. benefits of reporting on a GAAP basis. The School District has taken the first steps on getting back to reporting on GAAP by having an appraisal company conduct an inventory during FY 2010 of all capital assets in the School District. It has been debated with the Community Audit Advisory Committee that as the School District gets closer to being eligible for OSFC monies, having financial statements on a GAAP basis will have to be done in order to raise the School District's bond rating. Whether the School District prepares General Purpose Financial Statements or a Comprehensive Annual Financial Report has not been decided. Again though, the financial condition of the School District, staff availability and costs will be considered carefully before a decision is made.

## Section III - Federal Award Findings and Questioned Costs

U.S. Department of Education – CFDA 84.394 – *ARRA-State Fiscal Stabilization Fund*

### 2010-2 Cash Management:

*Condition:* The School District did not minimize the time between the transfer of Federal funds and the disbursement of funds for program purposes.

*Criteria:* According to the U.S. Department of Education's guidance on SFSP, states must have an effective system to ensure that entities are able to draw down funds as needed to pay program costs but that also minimizes the time that elapses between the transfer of the funds and their disbursement by the grantee or sub grantee, in accordance with U.S. Department of the Treasury regulations at 31 C.F.R. Part 205.

*Effect:* Lack of proper monitoring of the time between the transfer of Federal funds and the disbursement of funds for program purposes could result in the loss of funding the School District receives in future periods due to compliance violations.

*Cause:* The School District lacked procedures to ensure the time between the transfer of Federal funds and the disbursement of funds for program purposes was minimized.

*Recommendation:* We recommend the School District implement procedures to ensure the time between the transfer of Federal funds and the disbursement of funds for program purposes is minimized.

*Managements Response:* When the School District receives a payment of the State Fiscal Stabilization Funds, it will examine the status of the fund on the School District's books to ensure that all monies are expended within 30 days of the date of receipt. It will examine the financial summary report on a consistent basis to make sure that there is no significant time lag between date of receipt and date of expenditure.



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# Dave Yost • Auditor of State

LEBANON LOCAL 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  
FEBRUARY 8, 2011