



**Auditor of State
Betty Montgomery**

LEBANON CITY SCHOOL DISTRICT
WARREN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

October 6, 2005

Mr. Jackson Hedges, President Board of Education
Mr. James Sears, Superintendent
Mr. Cary Furniss, Business Manager
Lebanon City School District
700 Holbrook Ave.
Lebanon, Ohio 45036

To Mr. Hedges, Mr. Sears and Mr. Furniss:

We have performed the procedures enumerated below as of August 31, 2005, which were agreed to by the Lebanon City School District, Warren County, Ohio (the District), in response to your August 4, 2005 letter in which you requested that we review transfers, advances, reconciliations, debt payments, cancelled purchase orders and investment balances. The Lebanon City School District's management is responsible for reconciling accounts, debt payments, certifying purchase orders and recording investments and advances and transfers.

We followed the American Institute of Certified Public Accountants' attestation standards for agreed-upon procedures engagements. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Specific steps taken to perform the agreed upon procedures, and the results of those procedures were as follows:

Agreed-Upon Procedure #1: Agree reconciling items over \$100 on the District's June 30, 2005 reconciliation (of the District's cash book balance on the SWOCA system to the bank balance) to bank statements subsequent to June 30, 2005.

Specific steps taken to perform the agreed-upon procedure:

- We agreed reconciling items over \$100 on the District's June 30, 2005 reconciliation to bank statements subsequent to June 30, 2005.
- We agreed Fund Balances on the Bank Reconciliation Summary Report to the SWOCA Financial Report by Fund (FINSUM).

Results of procedure:

- No discrepancies were noted in the reconciling items or the fund balances.

Agreed-Upon Procedure #2: Compare transfers and advances made by the District in June 2005 and June 2004 to transfers allowed by Ohio Revised Code 5705.14-.16 (including requirements for board authorization of transfers) and guidance provided in Auditor of State Bulletin 1997-003.

Specific steps taken to perform the agreed-upon procedure:

- We compared transfers and advances made in June 2005 and June 2004 as recorded on the District's "Financial Report by Fund" to transfers allowed by Ohio Revised Code Section 5705.14-.16 and guidance on interfund advances provided in Auditor of State Bulletin 1997-003.
- We compared documentation of the authorization of transfers and advances (if any) in the Board minutes to transfers and advances made in June 2005 and June 2004.
- We compared transfers and advances made in June 2005 and June 2004 to all transfers, advances and debt service payments made during 2004 and 2005 fiscal years. This comparison was necessary to understand the transfers and advances made in June 2005 and 2004.

Results of procedure:

- *Transfers not authorized by the Board:*

In September 2003, the Treasurer transferred \$5,088,500 from the Building Project Fund to the Debt Service Fund. This transfer appears to be related to the payment of principal and interest of a \$5,000,000 bond anticipation note (BAN) issued in 2003, and the proceeds of a \$5,000,000 BAN issued in 2004. The proceeds of the BAN issued in 2004 and paid into the Building Project Fund, and the principal and interest payments on the 2003 BAN were made from the Debt Service fund. It appears the Treasurer transferred the \$5,088,500 to the Debt Service Fund to cover the BAN debt service requirements. ORC section 5705.14 requires that except in the case of transfers from the general fund "transfers authorized by this section shall only be made by resolution of the taxing authority passed with the affirmative vote of two-thirds of the members." We could find no documentation of Board Approval of this transfer. The District could have avoided the need to transfer from the Building Project Fund to the Debt Service fund by accounting for the BAN proceeds and debt service payments exclusively in the Debt Service Fund.

- *Advances not in compliance with Auditor of State Bulletin 1997-003:*

Description of advances:

On June 30 2004, \$2,085,967 in advances were recorded from the General fund to other District funds. These were all advances from the general fund to various other funds, which are all allowable under the ORC, but none were approved by the Board of Education. These advances were repaid during the course of the 2005 fiscal year. On June 30, 2005, \$150,355 in advances were recorded from the General fund to other District funds, and a \$1,410,074 advance was recorded from the Debt Service Fund to the Self Insurance Fund.

Description of Non-compliance with Auditor of State Bulletin 1997-003:

- *Advances not approved by formal resolution:* Auditor of State Bulletin 1997-003 states that:

“Advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include:

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

The advances described above were not approved by a formal resolution as described in Auditor of State Bulletin 1997-003.

- *Advances from a fund restricted for other purposes:* Auditor of State Bulletin 1997-003 also states that: “In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established . . . “

Debt Service funds are restricted for debt service payments, and therefore the June 30, 2005 advance of \$1,410,074 from the Debt Service Fund to the Self Insurance Fund was not allowed.

This advance was repaid on July 27, 2005.

- *The 2005 certificate of estimated resources was not adjusted for advances:* Auditor of State Bulletin 1997-003 states that: “When a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, the total resources available for expenditure in the creditor and debtor fund are misstated, as no provisions exists for the receipt of cash in the creditor fund or for the use of the debtor fund. To adjust for this, the unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the succeeding fiscal year to produce the “carryover balance available for appropriation.” Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the succeeding fiscal year to produce “carryover balance available for appropriation.” The year end advances made by the district were not included on the “certificate of the total amount from all sources available for expenditures, and balances” (Certificate) filed with the County Budget Commission pursuant to Section 5705.36 of the Revised Code.

Because the 2005 "Carryover Balance Available for Appropriation" was not adjusted for advances outstanding at June 30, 2004, "Total Amount Available Plus Balances" on the 2005 Certificate was misstated as follows:

Fund	2005 Total Amount Available Plus Balances (understated) overstated
General	\$(3,616,583)
Debt Service	579,779
Building Project Fund	2,723,439
Other Funds	313,365

Agreed-Upon Procedure #3: Compare the dates and amounts of all purchase orders cancelled during the last 15 days of the 2005 fiscal year to the due dates on the invoices of any payments related to the cancelled purchase orders made subsequent to cancellation of the purchase orders to confirm that: the District checks were issued by the due date on the invoice; and that related amounts were encumbered at June 30, 2005 if the payment was made after June 30, 2005.

Specific steps taken to perform the agreed-upon procedure:

- We obtained a listing of all purchase orders cancelled during the last 15 days of June 2005. All purchase orders cancelled in June 2005 were from the General Fund. We then compared the invoices paid in July 2005 and purchase orders reissued in July 2005 to related to purchase orders that were cancelled in June 2005, to determine if the purchase orders cancelled in June 2005 should have been encumbered at June 30, 2005.

Results of procedure:

On the District's cash basis records, purchase orders cancelled in June 2005 totaled \$266,714. Purchase orders reissued in July 2005 related to purchase orders cancelled in June 2005 totaled \$258,813.

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. Additionally, Section 5705.41 (D) (1) states that except as otherwise provided in division (D)(2) of this section and section 5705.44 of the Revised Code, no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation.

The District's stated policy is to carry over encumbrances and not cancel purchase orders at year end. If the District had properly encumbered the outstanding purchase orders rather than canceling them, the total Unencumbered Fund Balance for the General Fund at June 30, 2005 would have been \$763,447, as follows:

General Fund Unencumbered Balance at FYE 2005	\$1,022,260
Cancelled Purchase Orders Reissued July 2005	(258,813)
Restated General Fund Unencumbered Balance at FYE 2005	\$763,447

Agreed-Upon Procedure #4: Compare funds from which the District made debt payments from November 2002 through June 2005 to requirements for payments from specific funds identified in Ohio Const. Art. XII, Section 11; Ohio Rev. Code Sections 133.10, 133.22 133.24, 321.34, 5705.03, 5705.05,9 5705.09 and 5705.10; and 1981 Op. Atty Gen. No. 81-035, restrictions in related debt levies, and requirements of any debt agreements (covenants) if applicable. Also, compare amounts paid to debt service schedules listed in offering statements or debt contracts.

Specific steps taken to perform the agreed-upon procedure:

- We scanned all debt service expenditures from November 2002 through June 2005 and compared those expenditures to applicable legal requirements.
- We compared debt payments presented in the District's Fiscal Year 2003 and 2004 Comprehensive Annual Financial Reports and Fiscal Year 2005 debt payments shown on their cash basis financial detail report to the District's debt schedules.

Results of procedure:

Debt service payments presented in the District's Fiscal Year 2003 and 2004 Comprehensive Annual Financial Reports and Fiscal Year 2005 debt payments shown on their cash basis financial detail report agreed to debt schedules.

However, we noted the following exceptions to certain restrictions and legal requirements:

- *Energy Conservation Debt.* The District participates in an energy conservation program (established in 1985 by House Bill 264), whereby the District issued debt to finance energy conservation measure improvements to facilities.

Beginning in the 2002 fiscal year, the District's practice was to transfer from the General Fund to the Debt Service Fund an amount equal to the energy conservation debt service payments made from the Debt Service Fund. However in the 2003 fiscal year, \$172,456 in energy conservation debt payments were made from the Debt Service Fund and there was no corresponding transfer from the General Fund. All funds in the Debt Service Fund are restricted to use by debt covenants relating to bonded debt. The payment for the energy conservation loan must come from funds left in the capital account where the loan funds were initially placed, or from the general fund. Also, in the 2005 fiscal year \$4,725 in energy conservation debt payments were made from the Debt Service Fund and there was no corresponding transfer from the General Fund.

On July 31, 2005, the District transferred \$177,181 from the General fund to the Debt Service Fund to remedy this shortfall.

- *Certificate of Participation Debt Payment.* During the 2005 fiscal year, the paid principal and interest of \$390,432 for a certificate of participation from the Debt Service Fund. The Debt Service Fund is restricted as to use by the covenants of the bonded debt issuances, and payments for certificates of participation are not an allowed use of the Debt Service Fund. The District corrected this payment on July 31, 2005 by transferring \$390,432 from the General Fund to the Debt Service fund; however, the difference in timing between the payment in the 2005 fiscal year and the correction in the 2006 fiscal year reduced the Debt Service Fund cash balance by \$390,432 at June 30, 2005, and created corresponding commitment in the General Fund.

Agreed-Upon Procedure #5: Compare the District's accounting for the book value and fair value of a specific security (identified by the District) held by 5/3 Bank to the District's policy, if any, for accounting for differences between book value and fair value of securities, and generally accepted accounting principles and related guidance, specifically the GASB Comprehensive Implementation Guide-2004 Questions 6.36 and 6.37.

Specific step taken to perform the agreed-upon procedure:

- We compared the cost basis (disclosed in the District's 4502 report) and fair value of all District investments (disclosed in District's Comprehensive Annual Financial Report (CAFR)) at June 30, 2003, 2004 and 2005 to the accounting requirements for investments. At the District's request, we included all investments in the analysis.
- We reviewed the guidance in the GASB Comprehensive Implementation Guide 2004 Questions 6.36 and 6.37.
- We compared the GAAP financial presentation of the securities per the 2003 and 2004 CAFRs, the Cash Basis per Exhibit I in the 4502 Report and the Fair Value per the Bank Statements.

Results of procedure:

The Governmental Accounting Standards Board Comprehensive Implementation Guide GASB provides the following guidance in question numbers 6.36 and 6.37:

"At a minimum, investments should be marked to market as of the date of the statement of net assets/balance sheet. Depending on a government's investment horizon, the volatility of the investment portfolio, the size of the portfolio, and the interests of the financial statement users – including management and any investment pool participants – investments are often marked to market more frequently. However, Statement 31 does not require this.....There is no requirement to journalize fair value adjustments or to keep accounting records based on fair value. Cost-based records are acceptable, provided that adjustments to fair value are made when financial statements are prepared."

The District's 4502 report values investments at cost. Investment valuation principles generally accepted accounting principles prescribe apply to the District's CAFR and do not apply to amounts reported on the 4502. Therefore, the District's accounting policy did not provide specific guidance for accounting for the difference in the cost and fair value of investments.

For those investments required to be reported at fair value by Governmental Accounting Standards Board Statement Number 31, a comparison of the cost, fair value per the bank statements and fair value disclosed in the District's Comprehensive Annual Financial Report (CAFR) follows. The fair value fair value per the bank statements and fair value disclosed in the District's CAFR should equal. Based on the comparison, amounts at June 30, 2003 and 2004 by 1%. The 2005 CAFR has not yet been issued.

Investments required to be reported at fair value by Governmental Accounting Standards Board Statement Number 31				
Year	Cost per Exhibit I in 4502 at June 30	Fair Value Per Bank Statement at June 30	Fair Value per CAFR at June 30	Difference Between Fair Value per Bank and Fair Value per CAFR
2003	\$41,575,481	\$40,328,706	\$ 39,837,032	(1%)
2004	11,587,724	11,743,130	11,844,660	1%
2005	3,456,435	3,217,585	N/A	

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the cash reconciliations, transfers, advances, debt service payments and investment values. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the addressees listed above and is not intended to be and should not be used by anyone else.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 6, 2005



**Auditor of State
Betty Montgomery**

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LEBANON CITY SCHOOL DISTRICT

WARREN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2005**