



Lebanon City School District

Basic Financial Statements
Year Ended June 30, 2011
with Independent Auditors' Report





Dave Yost • Auditor of State

Board of Education
Lebanon City School District
700 Holbrook Avenue
Lebanon, Ohio 45036-1648

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, 2010 through June 30, 2011. 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

March 28, 2012

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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, 2011, 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, 2011, 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.

As described in Note 3, during the year ended June 30, 2011, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 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.

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, and is not a required part of the basic financial statements of the School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hachett & Co.

Middletown, Ohio
December 29, 2011

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2011
Unaudited

The Lebanon City School District is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ended June 30, 2011. 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 \$739,249 or 6.43%.
- ❑ General receipts accounted for \$46,870,863 in revenue or 90.20% of all revenues. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,093,710 or 9.80% of total revenues of \$51,964,573.
- ❑ The District had \$52,703,822 in cash disbursements to governmental activities; only \$5,093,710 of these expenses was offset by program specific charges for services, grants or contributions. General receipts (primarily property taxes and entitlements) of \$46,870,863 were also used to provide for these services.
- ❑ Among major funds, the general fund had \$40,809,089 in receipts and \$41,685,442 in disbursements. The general fund's fund balance decreased \$746,327 from fiscal year 2010 to a fund balance of \$7,138,684 at June 30, 2011.

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, 2011
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a 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 2011, 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, 2011
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 net assets) 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 2011 and 2010:

(Table 1)
Net Assets

	Governmental Activities		% of Change
	2011	2010	
Assets			
Cash and Investments	\$10,218,431	\$11,198,416	-8.75%
Restricted Cash	537,515	296,779	81.12%
Total Assets	\$10,755,946	\$11,495,195	-6.43%
Restricted			
Other Purposes	\$1,476,498	\$1,515,022	-2.54%
Set Asides	537,515	296,779	81.12%
Debt Service	1,333,722	1,683,819	-20.79%
Capital Projects	954,545	673,909	41.64%
Unrestricted	6,453,666	7,325,666	-11.90%
Total Net Assets	\$10,755,946	\$11,495,195	-6.43%

Total assets decreased by \$739,249. 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, 2011
Unaudited

Table 2 demonstrates the changes in net assets for fiscal year 2011. The District experienced a 28.17% decrease in operating grants, interest and contributions due to the decrease in the amount of federal stimulus grant dollars received during fiscal year 2011. The District also experienced a .27% increase in total general receipts during 2011.

(Table 2)
Change in Net Assets

	Governmental Activities 2011	2010	% of Change
Revenues			
Program Receipts:			
Charges for Services	\$2,170,933	\$2,054,109	5.69%
Operating Grants, Interest and Contributions	2,922,777	4,069,092	-28.17%
Total Program Receipts	5,093,710	6,123,201	-16.81%
General Receipts:			
Property Taxes			
General Purposes	18,966,562	19,114,217	-0.77%
Debt Service	3,675,197	3,611,101	1.77%
Capital Projects	1,002,002	967,508	3.57%
Grants and Entitlements not Restricted to			
Specific Programs	22,332,618	22,604,151	-1.20%
Revenue in Lieu of Taxes	302,886	166,261	82.18%
Investment Earnings	23,441	36,477	-35.74%
Gifts and Donations	30,931	5,599	452.44%
Miscellaneous	537,226	238,806	124.96%
Total General Receipts	46,870,863	46,744,120	0.27%
Total All Receipts	\$51,964,573	\$52,867,321	-1.71%

(Continued)

Expenditures decreased by \$560,853 or 1.05% from 2010. The decrease can be primarily attributed to the decrease in the amount of Federal Stimulus Funds received. There was also no base line increase in salaries other than step increases and educational level changes. In addition, there was also a decrease in health insurance premiums during the same time period.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2011
Unaudited

(Table 2)
Change in Net Assets
(Continued)

	Governmental Activities		% of
	2011	2010	Change
Cash Disbursements			
Instruction			
Regular	\$19,131,610	\$19,018,142	0.60%
Special	4,077,155	4,941,547	-17.49%
Vocational	52,043	43,973	18.35%
Other	3,072,837	2,565,680	19.77%
Support Services			
Pupils	2,047,993	2,307,909	-11.26%
Instructional Staff	2,390,692	2,825,080	-15.38%
Board of Education	50,029	52,409	-4.54%
Administration	3,514,071	2,982,466	17.82%
Fiscal	1,203,557	1,177,711	2.19%
Business	0	60	-100.00%
Operation and Maintenance of Plant	3,717,026	3,770,799	-1.43%
Pupil Transportation	4,696,602	4,828,173	-2.73%
Central	267,334	293,685	-8.97%
Operating of Non-Instructional Services	1,964,912	1,929,972	1.81%
Extracurricular Activities	1,089,106	1,120,360	-2.79%
Capital Outlay	250,132	623,657	-59.89%
Debt Service	5,172,171	4,783,052	8.14%
Intergovernmental	6,552	0	100.00%
Total Cash Disbursements	52,703,822	53,264,675	-1.05%
Change in Net Assets	(\$739,249)	(\$397,354)	86.04%

Governmental Activities

The District receives 45.50% of its revenue from property taxes and 42.98% from grants and entitlements. The balance of revenue received, or 11.52%, is in the form of program revenues, investment income, gifts and donations, and miscellaneous items.

Expenses for instruction represent 49.97% of the total governmental expenses. Support services represent 33.94% of the total expenses. The remaining 16.09% 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, 2011
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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010	% of Change in Net Cost
Instruction	\$26,333,645	24,102,334	\$26,569,342	23,706,379	1.67%
Support Services	17,887,304	17,571,932	18,238,292	17,645,327	-0.42%
Operation of Non-Instructional Services	1,964,912	(131,065)	1,929,972	(319,447)	-58.97%
Extracurricular Activities	1,089,106	638,056	1,120,360	702,506	-9.17%
Capital Outlay	250,132	250,132	623,657	623,657	-59.89%
Debt Service	5,172,171	5,172,171	4,783,052	4,783,052	8.14%
Intergovernmental	6,552	6,552	0	0	100.00%
Total Cash Disbursements	<u>\$52,703,822</u>	<u>\$47,610,112</u>	<u>\$53,264,675</u>	<u>\$47,141,474</u>	<u>0.99%</u>

The District's Funds

Total governmental funds had receipts of \$51,876,157 and disbursements of \$52,703,822. The fund balance (restated – see Note 3 of the Notes to the Basic Financial Statements) of the General Fund decreased \$746,327. The fund balance of the Debt Service Fund decreased by \$350,097 while the other governmental funds balances increased by \$357,175. This increase was due to the Permanent Improvement Fund no longer being a major fund and being combined with the other governmental funds. The decrease in the General Fund is primarily due to the funding that the District receives not keeping up with the increasing cost of doing business.

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 2011, 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 only \$18,546 above the final budgeted amount.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2011
Unaudited

Capital Assets and Debt Administration

Capital Assets

The District does not currently present its capital assets on its financial statements. The District still maintains capital asset records 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, 2011, the District had outstanding debt of \$36,699,951 in general obligation bonds issued for new construction and improvements, and \$3,847,000 in capital leases for facilities and equipment. At June 30, 2011, the School District's overall legal debt limitation was \$32,761,771, and the unvoted debt margin was \$799,722. The District currently has bond ratings of AA- from Standard & Poor and A1 from Moody's Investor Services. Further information regarding the District's debt can be found in Note 10 to the basic financial statements.

The Future of Lebanon City School District

In November 2011, the voters passed a five-year 3.78 mill operating levy. The passage of this levy was critical for the District to sustain the staff, services and programs that the District has without requiring another three million dollars in cuts. 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 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.

Lebanon City School District, Ohio
Statement of Net Assets - Modified Cash Basis
June 30, 2011

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$10,218,431
Restricted Cash and Cash Equivalents	537,515
Total Assets	\$10,755,946
Net Assets:	
Restricted for:	
Other Purposes	\$1,476,498
Set Asides	537,515
Debt Service	1,333,722
Capital Projects	954,545
Unrestricted	6,453,666
Total Net Assets	\$10,755,946

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, 2011

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants, Interest and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$19,131,610	\$0	\$152,711	(\$18,978,899)
Special	4,077,155	0	1,239,561	(2,837,594)
Vocational	52,043	0	44,710	(7,333)
Other	3,072,837	498,059	296,270	(2,278,508)
Support Services:				
Pupils	2,047,993	0	7,308	(2,040,685)
Instructional Staff	2,390,692	0	127,123	(2,263,569)
Board of Education	50,029	0	0	(50,029)
Administration	3,514,071	0	60,807	(3,453,264)
Fiscal	1,203,557	0	0	(1,203,557)
Operation and Maintenance of Plant	3,717,026	97,316	0	(3,619,710)
Pupil Transportation	4,696,602	0	4,168	(4,692,434)
Central	267,334	0	18,650	(248,684)
Operation of Non-Instructional Services	1,964,912	1,135,130	960,847	131,065
Extracurricular Activities	1,089,106	440,428	10,622	(638,056)
Capital Outlay	250,132	0	0	(250,132)
Debt Service	5,172,171	0	0	(5,172,171)
Intergovernmental	6,552	0	0	(6,552)
Total Governmental Activities	\$52,703,822	\$2,170,933	\$2,922,777	(47,610,112)

General Receipts:

Property Taxes Levied for:

General Purposes	18,966,562
Debt Service	3,675,197
Capital Outlay	1,002,002
Grants and Entitlements not Restricted to Specific Programs	22,332,618
Payment in Lieu of Taxes	302,886
Interest	23,441
Gifts and Donations	30,931
Miscellaneous	537,226
Total General Receipts	46,870,863

Change in Net Assets (739,249)

Net Assets Beginning of Year 11,495,195

Net Assets End of Year \$10,755,946

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, 2011

	GENERAL	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:				
Equity in Pooled Cash and Investments	\$6,601,169	\$1,333,722	\$2,283,540	\$10,218,431
Restricted Cash and Cash Equivalents	537,515	0	0	537,515
Total Assets	<u>\$7,138,684</u>	<u>\$1,333,722</u>	<u>\$2,283,540</u>	<u>\$10,755,946</u>
Fund Balances:				
Restricted	537,515	1,333,722	2,212,341	4,083,578
Committed	0	0	71,199	71,199
Assigned	863,377	0	0	863,377
Unassigned	5,737,792	0	0	5,737,792
Total Fund Balances	<u>\$7,138,684</u>	<u>\$1,333,722</u>	<u>\$2,283,540</u>	<u>\$10,755,946</u>

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, 2011

	GENERAL	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Receipts:				
Property and Other Taxes	\$18,966,562	\$3,675,197	\$1,002,002	\$23,643,761
Intergovernmental	20,344,453	486,043	4,415,291	25,245,787
Interest	20,708	1,837	1,099	23,644
Tuition and Fees	498,059	0	0	498,059
Rent	97,316	0	2,101	99,417
Extracurricular Activities	114,170	0	310,394	424,564
Gifts and Donations	25,788	0	5,852	31,640
Charges for Services	16,416	0	1,157,477	1,173,893
Payment in Lieu of Taxes	302,886	0	0	302,886
Miscellaneous	422,731	0	9,775	432,506
Total Receipts	40,809,089	4,163,077	6,903,991	51,876,157
Disbursements:				
Current:				
Instruction:				
Regular	17,523,456	0	1,608,154	19,131,610
Special	2,839,536	0	1,237,619	4,077,155
Vocational	52,043	0	0	52,043
Other	2,646,913	0	425,924	3,072,837
Support Services:				
Pupils	2,040,643	0	7,350	2,047,993
Instructional Staff	2,259,406	0	131,286	2,390,692
Board of Education	50,029	0	0	50,029
Administration	3,446,874	6,249	60,948	3,514,071
Fiscal	1,152,993	39,369	11,195	1,203,557
Operation and Maintenance of Plant	3,669,853	0	47,173	3,717,026
Pupil Transportation	4,690,553	0	6,049	4,696,602
Central	253,329	0	14,005	267,334
Operation of Non-Instructional Services	341	0	1,964,571	1,964,912
Extracurricular Activities	801,197	0	287,909	1,089,106
Capital Outlay	2,015	0	248,117	250,132
Debt Service:				
Principal Retirement	83,000	2,825,000	402,000	3,310,000
Interest and Fiscal Charges	166,709	1,642,556	52,906	1,862,171
Intergovernmental	6,552	0	0	6,552
Total Disbursements	41,685,442	4,513,174	6,505,206	52,703,822
Excess of Receipts Over (Under) Disbursements	(876,353)	(350,097)	398,785	(827,665)
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	(7,946)	0	(33,851)	(41,797)
Refund of Prior Year Expenditures	131,052	0	399	131,451
Advances - In	1,347,844	353,976	684,497	2,386,317
Advances - Out	(1,340,924)	(353,976)	(692,655)	(2,387,555)
Total Other Financing Sources (Uses)	130,026	0	(41,610)	88,416
Net Change in Fund Balances	(746,327)	(350,097)	357,175	(739,249)
Fund Balances at Beginning of Year - Restated (See Note 3)	7,885,011	1,683,819	1,926,365	11,495,195
Fund Balances at End of Year	\$7,138,684	\$1,333,722	\$2,283,540	\$10,755,946

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, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Taxes	\$9,959,000	\$23,612,373	\$19,269,448	(\$4,342,925)
Intergovernmental	12,161,779	14,297,582	20,344,453	6,046,871
Interest	13,518	14,187	20,708	6,521
Tuition and Fees	22,105	133,572	243,338	109,766
Extracurricular	0	29,185	10,319	(18,866)
Rent	36,048	61,472	97,316	35,844
Gifts and Donations	4,560	3,796	4,103	307
Charges for Services	0	9	9	0
Miscellaneous	63,084	285,012	406,937	121,925
Total Revenues	22,260,094	38,437,188	40,396,631	1,959,443
Expenditures:				
Current:				
Instruction:				
Regular	3,402,087	16,123,308	17,302,285	(1,178,977)
Special	598,307	2,774,153	2,909,322	(135,169)
Vocational	43,378	47,224	52,043	(4,819)
Other	2,012,853	3,595,094	2,930,862	664,232
Support Services:				
Pupils	482,968	2,009,303	2,132,308	(123,005)
Instructional Staff	131,228	2,097,872	2,225,593	(127,721)
Board of Education	46,723	52,919	50,029	2,890
Administration	306,631	3,201,820	3,460,122	(258,302)
Fiscal	630,488	1,062,835	1,166,357	(103,522)
Business	100	100	60	40
Operation and Maintenance of Plant	1,590,051	3,469,481	3,710,729	(241,248)
Pupil Transportation	987,851	4,309,553	4,730,969	(421,416)
Central	180,807	274,099	265,200	8,899
Operation of Non-Instructional Services	700	1,700	941	759
Extracurricular Activities	0	612,766	680,521	(67,755)
Capital Outlay	3,615	2,015	2,015	0
Debt Service:				
Principal Retirement	83,000	83,000	83,000	0
Interest and Fiscal Charges	166,709	166,709	166,709	0
Intergovernmental	0	6,552	6,552	0
Total Expenditures	10,667,496	39,890,503	41,875,617	(1,985,114)
Excess of Revenues Over (Under) Expenditures	11,592,598	(1,453,315)	(1,478,986)	(25,671)
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	(25,000)	(6,124)	(6,124)	0
Refund of Prior Year Expenditures	0	130,979	131,052	73
Advances - In	460,731	1,102,564	1,281,736	179,172
Advances - Out	(200,000)	(1,274,816)	(1,274,816)	0
Transfers - Out	(200,000)	0	0	0
Total Other Financing Sources (Uses)	35,731	(47,397)	131,848	179,245
Net Change in Fund Balance	11,628,329	(1,500,712)	(1,347,138)	153,574
Fund Balance at Beginning of Year	6,852,757	6,852,757	6,852,757	0
Prior Year Encumbrances Appropriated	769,688	769,688	769,688	0
Fund Balance at End of Year	\$19,250,774	\$6,121,733	\$6,275,307	\$153,574

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, 2011

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$193,408	\$96,617
Net Assets:		
Restricted for Students	0	96,617
Held in Trust for Scholarships	193,408	0
Total Net Assets	\$193,408	\$96,617

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, 2011

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$1,947
Gifts and Donations	19,500
	21,447
Total Additions	21,447
Deductions:	
Payments in Accordance with Trust Agreements	19,143
	19,143
Total Deductions	19,143
Change in Net Assets	2,304
Net Assets Beginning of Year	191,104
Net Assets End of Year	\$193,408

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, 2011

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 266 non-certified employees, 313 certified full time personnel, who provide services to 5,450 students and other community members. The District currently operates eight instructional/support facilities.

Reporting Entity

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

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

The District participates in four jointly governed organizations and one insurance purchasing pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), Warren County Career Center and Ohio School Board's Association Group Rating Program (GRP), respectively. These organizations are presented in Note 12 to the basic financial statements.

As discussed further in section C of Note 2, these financial statements are presented on a 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, 2011

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 is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 net assets) 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, 2011

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 2011, the District's investments included money market funds, Federal Home Loan Mortgage Association Notes, Federal National Mortgage Association Discount Notes, Federal Farm Credit Corporation Notes, Federal Home Loan Bank Discount Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Discount Notes, U.S. Treasury Bills, 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 2011 were \$20,708, which included \$7,552 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. The differences between advances in and advances out is due to interfund activity with the agency funds.

G. Employer Contributions to Cost-Sharing Pension Plans

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

H. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories can be used:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

I. 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 \$4,373,479 of restricted net assets, of which none is restricted by enabling legislation.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES

A. Change in Accounting Principles

For the year ended June 30, 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES (continued)

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the District.

B. Restatement of Prior Year Balances

Fund reclassifications were required in order to report funds in accordance with GASB Statement No. 54. These fund reclassifications had the following effect on the District’s governmental fund balances as previously reported:

	General Fund	Other Governmental Funds
Fund Balance as previously reported	\$7,622,445	\$1,620,005
Fund Reclassification of the School Supplies Fund	131,744	(131,744)
Fund Reclassification of the Public School Support Fund	130,822	(130,822)
Restated Fund Balance at July 1, 2010	\$7,885,011	\$1,926,365

The fund reclassifications did not have an effect on net assets as previously reported.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified cash basis are that:

1. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to an assignment of fund balance for that portion of outstanding encumbrances (GAAP basis).
2. Two funds are included in the general fund (GAAP basis), but have separate, legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statements to the budgetary basis statement for the general fund.

Cash Basis	(\$746,327)
Funds Budgeted Elsewhere	43,864
Adjustment for Encumbrances	(644,675)
Budget Basis	(\$1,347,138)

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 5 - 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 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 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.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of 2011 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 2011 were levied after April 1, 2010, on the value as of December 31, 2010. 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, 2011, are available to finance fiscal year 2011 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 2011 taxes were collected are:

	<u>2010 Second- Half Collections</u>		<u>2011 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$756,542,250	97.30%	\$760,960,080	93.70%
Public Utility	19,229,140	2.47%	51,143,670	6.30%
Tangible Personal Property	<u>1,685,870</u>	<u>0.23%</u>	<u>0</u>	<u>0.00%</u>
Total Assessed Value	<u>\$777,457,260</u>	<u>100.00%</u>	<u>\$812,103,750</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$62.31		\$62.32	

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. The District did not have any inactive deposits for the period ending June 30, 2011.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$4,419,299 of the District's bank balance of \$4,852,163 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, 2011, 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>Percent of Total Investments</u>
	<u>Fair Value</u>	<u>1-2</u>	
Money Market Funds	\$71,121	\$0	1.02%
STAR Ohio	4,867,652	0	70.12%
Federal Home Loan Mortgage Association Notes	1,638,717	1,638,717	23.61%
U.S. Treasury Bill	364,423	364,423	5.25%
Total Investments	<u>\$6,941,913</u>	<u>\$2,003,140</u>	

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

Credit Risk: The Federal Home Loan Mortgage Association Notes carry a rating of Aaa by Moody's. STAR Ohio's rating as of June 30, 2011 from Standard and Poor's is AAAM. The District's investment policy limits investments to those authorized by State statute. The District has no investment policy that addresses credit risk.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk: The District places no limit on the amount it may invest in any one issuer. The District's investment percentages are disclosed in the above table.

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, 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 2011, the District participated in the Ohio School Board's Association Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

NOTE 8 – DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement, disability and survivor 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 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employer/Audit Resources.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 – DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits and death benefits; for the fiscal year ending June 30, 2011, 11.77 percent and .04 percent of annual covered payroll was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$834,216, \$913,589, and \$598,991 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 – DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSION PLANS (continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$2,570,891, \$2,539,514, and \$2,434,398 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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, 2011, one of the members of the Board of Education has elected Social Security.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The District participates in two cost-sharing multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under Employers/Audit Resources.

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 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated

according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active employee members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009, were \$101,010, \$32,833, and \$204,855 respectively.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were \$53,684, \$54,329, \$45,419, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$197,761, \$195,347, and \$187,261, respectively.

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2011 were as follows:

	Amount Outstanding 7/1/10	Additions	Deductions	Amount Outstanding 6/30/11	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds:					
Ohio School Facilities Construction And Improvement Bonds – 2002, 4.3%-5.5%	\$2,605,000	\$0	\$760,000	\$1,845,000	\$845,000
New School Construction Bond – 2002, 3.95%-4.25%	214,999	0	150,000	64,999	35,027
June 5, 2006 Refunding of General Obligation Bonds, 3.5%-5%	16,689,965	0	380,000	16,309,965	400,000
2007 Refunding of General Obligation Bonds, 4%-5%	20,014,987	0	1,535,000	18,479,987	280,000
Capital Leases:					
COPS Capital Lease	3,125,000	0	83,000	3,042,000	88,000
OASBO Pool Capital Lease	1,207,000	0	402,000	805,000	402,000
Total Governmental Activities Long – Term Liabilities	<u>\$43,856,951</u>	<u>\$0</u>	<u>\$3,310,000</u>	<u>\$40,546,951</u>	<u>\$2,050,027</u>

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

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, 2011 the District's overall legal debt limitation was \$32,761,771, and the unvoted debt margin was \$799,722.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,713,766	2,370,208	4,083,974
2017-2021	12,504,318	5,939,777	18,444,095
2022-2026	9,598,670	5,211,453	14,810,123
2027-2031	9,283,000	799,874	10,082,874
Total	<u>\$40,546,951</u>	<u>\$22,612,695</u>	<u>\$63,159,646</u>

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 11 – LEASES

The District leases buildings, vehicles and other equipment under noncancelable leases. The District disbursed \$704,615 to pay lease costs for the year ended June 30, 2011. Future lease payments are as follows:

Fiscal Year Ending June 30,	Total Payments
2012	\$687,430
2013	670,974
2014	250,042
2015	249,613
2016	249,887
2017-2021	1,244,304
2022-2026	1,241,184
2027-2031	1,236,020
Total	5,829,454
Less: Amount Representing Interest	(1,982,454)
Present Value of Net Minimum Lease Payments	\$3,847,000

NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Southwest Ohio Computer Association

The District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The District paid SWOCA \$101,609 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 2011, the District paid \$354,339 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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL
(continued)

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 2011, the District paid \$250 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.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 13 – FUND BALANCE

Fund balance is classified as restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Debt Service	Other Governmental Funds	Total Governmental
Restricted for:				
Textbooks/Instructional Materials Set-Aside	\$537,515	\$0	\$0	\$537,515
Debt Retirement	0	1,333,722	0	1,333,722
Permanent Improvements	0	0	911,241	911,241
Building Projects	0	0	43,304	43,304
Food Service	0	0	990,008	990,008
Miscellaneous Local Grants	0	0	4,386	4,386
Athletic Activities	0	0	86,729	86,729
Auxiliary Services	0	0	78,731	78,731
Education Management Information Systems	0	0	3,999	3,999
Data Connectivity	0	0	8,210	8,210
Special Education (IDEA, Part B)	0	0	18,425	18,425
State Fiscal Stabilization Funds	0	0	43,069	43,069
Title III – Immigrant Funds	0	0	87	87
Intervention (Title I)	0	0	6,283	6,283
Preschool Education	0	0	322	322
Teacher Quality Improvement (Title IIA)	0	0	11,101	11,101
Technology (Title IID)	0	0	6,446	6,446
Total Restricted	<u>537,515</u>	<u>1,333,722</u>	<u>2,212,341</u>	<u>4,083,578</u>
Committed for:				
Athletic Stadium Improvements	0	0	71,199	71,199
Assigned for:				
School Supplies	92,404	0	0	92,404
Public School Support	126,298	0	0	126,298
Educational Activities	644,675	0	0	644,675
Total Assigned	<u>863,377</u>	<u>0</u>	<u>0</u>	<u>863,377</u>
Unassigned	<u>5,737,792</u>	<u>0</u>	<u>0</u>	<u>5,737,792</u>
Total Fund Balance	<u>\$7,138,684</u>	<u>\$1,333,722</u>	<u>\$2,283,540</u>	<u>\$10,755,946</u>

NOTE 14 – SET- ASIDE CALCULATION

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

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

NOTE 14 – SET- ASIDE CALCULATION (continued)

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, 2010	\$296,779	\$0
Current Year Set-aside Requirement	837,019	837,019
Qualifying Disbursements	(596,283)	(121,770)
Current Year Offsets	<u>0</u>	<u>(1,002,002)</u>
Total	<u>\$537,515</u>	<u>(\$286,753)</u>
Set-aside Reserve Balance as of June 30, 2011	<u>\$537,515</u>	<u>\$0</u>

The District had offsets during the fiscal year that reduced the capital improvements amount below zero. This negative amount may not be carried forward to offset the set-aside requirement for the next fiscal year. The qualifying disbursements for the textbooks/instructional materials set-aside were not enough to reduce the amount below zero; therefore, the resulting amount of \$537,515 is restricted on the balance sheet and on the statement of net assets with a corresponding restricted cash balance. Effective, July 1, 2011, the textbooks/instructional materials set-aside is no longer required and has been removed from existing law. The balance is therefore not presented as being carried forward to future fiscal years.

NOTE 15 – SUBSEQUENT EVENTS

In November, 2011, the voters of the District approved a five-year, 3.78 mill operating levy. This levy's approval means that the District will not need to make additional budget cuts that it was projecting to be an additional three million dollars. These cuts would have meant a loss of nearly 100 positions throughout the District. The District is going to be able to keep the current staff, programs and services.

In addition, on September 15, 2011, the District issued \$355,000 in tax exempt School Energy Conservation Improvement Bonds (Series 2011A) and \$3,015,000 in School Energy Conservation Improvement Bonds - Qualified School Construction Bonds (Series 2011B). The 2011A Series bonds are payable semi-annually on June 1 and December 1 of each year with the first payment due on December 1, 2011 and the final payment due on December 1, 2014. The 2011B Series bonds have interest payments due on June 1 and December 1 of each year with the first interest payment due on June 1, 2012. The final interest payment as well as the principal payment is due on December 1, 2025.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 16 - 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, 2011.

B. Litigation

The District was a party to legal proceedings at June 30, 2011. The District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

LEBANON CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

<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>
U.S. Department of Agriculture:				
<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	\$ 122,067	122,067
<i>Cash Assistance:</i>				
School Breakfast Program	05PU	10.553	78,993	78,993
National School Lunch Program	LLP4	10.555	<u>519,283</u>	<u>519,283</u>
Nutrition Cluster Total			<u>720,343</u>	<u>720,343</u>
Total U.S. Department of Agriculture			<u>720,343</u>	<u>720,343</u>
U.S. Department of Education:				
<i>(Passed through Ohio Department of Education)</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	C1S1-2010	84.010	80,772	66,635
Title I Grants to Local Educational Agencies	C1S1-2011	84.010	506,043	569,726
ARRA-Title I Grants to Local Educational Agencies	C1S1-2010	84.389	16,884	25,192
ARRA-Title I Grants to Local Educational Agencies	C1S1-2011	84.389	<u>58,834</u>	<u>64,625</u>
Title I, Part A Cluster Total			<u>662,533</u>	<u>726,178</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF-2010	84.027	110,326	107,862
Special Education - Grants to States	6BSF-2011	84.027	809,431	806,111
Special Education - Preschool Grants	PGS1/PGD7-2011	84.173	7,065	7,065
ARRA-Special Education - Grants to States	6BSF-2010	84.391	54,227	24,754
ARRA-Special Education - Grants to States	6BSF-2011	84.391	61,268	65,049
ARRA-Special Education - Preschool Grants	6BSF-2011	84.392	<u>2,619</u>	<u>2,297</u>
Special Education Cluster Total			<u>1,044,936</u>	<u>1,013,138</u>
ARRA-State Fiscal Stabilization Fund - Education State Grants	ARRA-2011	84.394	1,334,400	1,291,329
ARRA-State Fiscal Stabilization Fund - Education State Grants	ARRA-2010	84.394	<u>-</u>	<u>115,291</u>
			<u>1,334,400</u>	<u>1,406,620</u>
Education Technology State Grants	TJSL-2011	84.318	193	14
English Language Acquisition Grants	T3S2-2011	84.365	23,350	23,917
English Language Acquisition Grants	T3S2-2010	84.365	<u>100</u>	<u>-</u>
			<u>23,450</u>	<u>23,917</u>
Improving Teacher Quality State Grants	TRS1-2010	84.367	36,555	36,306
Improving Teacher Quality State Grants	TRS1-2011	84.367	<u>138,638</u>	<u>141,456</u>
			<u>175,193</u>	<u>177,762</u>
ARRA-Education for Homeless Children and Youth	ARRA-2010	84.387	<u>712</u>	<u>712</u>
Total U.S. Department of Education			<u>3,241,417</u>	<u>3,348,341</u>
Total Federal Awards			<u>\$ 3,961,760</u>	<u>4,068,684</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.

Lebanon City School District
Schedule of Prior Audit Findings
Year Ended June 30, 2011

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.

Status: Repeated as current year finding 2011-1.

2010-2 Cash Management:

According to the U.S. Department of Education's guidance on SFSF, 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. The School District did not minimize the time between the transfer of Federal funds and the disbursement of funds for program purposes.

Status: Corrected in the current year.

**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, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2011, 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 and the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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

Management of the School District is responsible for establishing and maintaining effective 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2.

We noted certain matters that we reported to management of the School District in a separate letter dated December 29, 2011.

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

This report is intended solely for the information 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.



Middletown, Ohio
December 29, 2011

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, 2011. 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 of 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, 2011.

Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the 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.

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.

Clark, Schaefer, Haskett & Co.

Middletown, Ohio
December 29, 2011

Lebanon City School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

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?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	no
Identification of major programs:	
<i>CFDA 84.394 – ARRA-State Fiscal Stabilization Fund – Education State Grants</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

2011-1 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 2011 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. 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.

2011-2 Appropriation Compliance

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. During our budgetary compliance review at June 30, 2011, we noted that the general fund had expenditures and encumbrances that exceeded appropriations. We recommend the School District implement procedures to amend the appropriations prior to incurring additional expenditures to ensure the funds are available and prevent fund deficits.

Management Response: The School District made the appropriate adjustments to appropriations so that General Fund did not have expenditures plus encumbrances that exceeded appropriations, but because this final appropriation resolution was not passed by the Board of Education until July, the School District was required to use the appropriations resolution that was passed by the Board prior to June 30, 2011 for reporting in the cash basis financial statements. This was the appropriation resolution approved by the Board at the June regular meeting, and it was for the month ended May 31, 2011. The School District knew there was an issue, and it was fixed before the School District closed the books for the fiscal year. This is strictly a timing issue. From now on, the School District will have a special meeting before the end of the fiscal year so that the Board can approve the final appropriation resolution.

Section III - Federal Award Findings and Questioned Costs

None noted

Independent Accountants' Report on Applying Agreed-Upon Procedure

Lebanon City School District
Warren County
700 Holbrook Avenue
Lebanon, Ohio 45036

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Lebanon City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 18, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. 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 Board of Education and is not intended to be and should not be used by anyone other than these specified parties.



Middletown, Ohio
December 29, 2011



Dave Yost • Auditor of State

LEBANON CITY SCHOOL DISTRICT

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 10, 2012