

LEBANON CITY SCHOOL DISTRICT



**Basic Financial Statements – Modified Cash Basis
June 30, 2017**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lebanon City School District, Warren County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. 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 19, 2018

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LEBANON CITY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Lebanon City School District

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lebanon City School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure about the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statements amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to the management's discussion & analysis listed in the table of contents. Accordingly, we express no opinion or any other assurance on this information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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* in considering the District's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.

Cincinnati, Ohio

December 19, 2017

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
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, 2017. 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 cash position as restated, decreased by \$6,284,089 or 11.66%.
- ❑ General receipts, transfers and advances accounted for \$66,010,283 in receipts. Program specific receipts in the form of charges for services, operating grants, interest and contributions accounted for \$4,877,985. Total receipts were \$70,888,268.
- ❑ The District had \$77,172,357 in cash disbursements to governmental activities; \$4,877,985 of these disbursements was offset by program specific charges for services, operating grants, interest or contributions. General receipts, transfers and advances (primarily property taxes and entitlements) of \$66,010,283 were also used to provide for these services.
- ❑ Among major funds, the general fund had \$51,206,064 in receipts and \$48,757,229 in disbursements. The general fund's fund balance increased \$2,526,948 from fiscal year 2016 to a fund balance of \$22,031,450 at June 30, 2017.

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 Position - Modified Cash Basis and Statement of Activities - Modified Cash Basis* 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, 2017
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 receipts (such as accounts receivable) and certain liabilities and their related disbursements (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 Position - Modified Cash Basis* and the *Statement of Activities - Modified Cash Basis* reflect how the District performed financially during 2017, within the limitations of modified cash basis accounting. The *Statement of Net Position - Modified Cash Basis* presents the cash balances and investments of the governmental activities of the District at year-end. The *Statement of Activities - Modified Cash Basis* 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 Position - Modified Cash Basis* and the *Statement of Activities - Modified Cash Basis*, 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, 2017
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 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 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 position) and do not involve measurement of results of operations.

The District as a Whole

The Statement of Net Position - Modified Cash Basis provides the perspective of the District as a whole. Table 1 below provides a summary of the District’s net position for 2017 and 2016, as restated:

(Table 1)
Net Position

Governmental Activities

	2017	2016 (Restated - See Note 15)	% of Change
Assets			
Cash and Investments	\$46,527,442	\$53,135,265	-12.44%
Cash with Escrow Agents	1,101,956	778,222	41.60%
Total Assets	\$47,629,398	\$53,913,487	-11.66%
Restricted			
Other Purposes	\$2,338,225	\$2,151,194	8.69%
Debt Service	5,898,207	5,382,901	9.57%
Capital Projects	17,247,337	26,735,857	-35.49%
Unrestricted	22,145,629	19,643,535	12.74%
Total Net Position	\$47,629,398	\$53,913,487	-11.66%

Total assets decreased by \$6,284,089. The decrease can mostly be attributed to the decrease in cash due to the disbursement of funds for the ongoing construction projects in the District.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
Unaudited

Table 2 demonstrates the changes in net position for fiscal year 2017.

(Table 2)
Change in Net Position

	Governmental Activities 2017	2016	% of Change
Revenues			
Program Receipts:			
Charges for Services	\$2,078,437	\$1,879,915	10.56%
Operating Grants, Interest and Contributions	2,799,548	2,517,543	11.20%
Total Program Receipts	4,877,985	4,397,458	10.93%
General Receipts:			
Property Taxes			
General Purposes	24,131,054	23,814,368	1.33%
Debt Service	5,408,236	5,217,476	3.66%
Classroom Facilities Maintenance	1,493,014	1,481,951	0.75%
Grants and Entitlements not Restricted to Specific Programs	25,955,143	25,802,193	0.59%
Grants and Entitlements for Capital Construction	8,057,869	15,257,049	-47.19%
Revenue in Lieu of Taxes	347,706	445,340	-21.92%
Interest	364,730	213,343	70.96%
Gifts and Donations	62,650	212,658	-70.54%
Miscellaneous	184,096	502,200	-63.34%
General Obligation Refunding Bonds Issued	0	9,130,000	-100.00%
Premium on Refunding Bonds Issued	0	361,231	-100.00%
Transfers	5,897	17,903	-67.06%
Advances	(112)	273	-141.03%
Total General Receipts, Transfers and Advances	66,010,283	82,455,985	-19.94%
Total All Receipts	\$70,888,268	\$86,853,443	-18.38%

(Continued)

Disbursements decreased by \$18,616,893 or 19.44% from 2016. This decrease is attributed to the lower disbursements for the ongoing construction projects.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
Unaudited

(Table 2)
Change in Net Position
(Continued)

	Governmental Activities 2017	2016*	% of Change
Cash Disbursements			
Instruction			
Regular	\$20,786,879	\$19,508,816	6.55%
Special	7,096,692	6,225,448	13.99%
Vocational	43,430	33,102	31.20%
Other	3,664,153	3,721,667	-1.55%
Support Services			
Pupils	3,070,038	2,791,733	9.97%
Instructional Staff	1,162,485	1,310,569	-11.30%
Board of Education	61,414	64,302	-4.49%
Administration	3,649,961	3,469,302	5.21%
Fiscal	1,096,093	1,195,163	-8.29%
Operation and Maintenance of Plant	3,628,750	3,534,125	2.68%
Pupil Transportation	6,129,969	5,484,213	11.77%
Central	452,400	418,080	8.21%
Operating of Non-Instructional Services	1,840,037	1,703,309	8.03%
Extracurricular Activities	1,169,483	1,312,387	-10.89%
Capital Outlay	17,475,364	29,950,087	-41.65%
Debt Service	5,845,209	15,065,594	-61.20%
Intergovernmental	0	1,353	-100.00%
Total Cash Disbursements	<u>77,172,357</u>	<u>95,789,250</u>	<u>-19.44%</u>
Change in Net Position	<u>(\$6,284,089)</u>	<u>(\$8,935,807)</u>	<u>-29.68%</u>

* 2016 numbers are restated, see Note 15.

Governmental Activities

The District receives 43.78% of its receipts from property taxes and 36.61% from grants and entitlements not restricted. The balance of receipts received, or 19.61%, is in the form of program receipts, investment income, gifts and donations, and miscellaneous items.

Disbursements for instruction represent 40.94% of the total governmental disbursements. Support services represent 24.95% of the total disbursements. The remaining 34.11% of disbursements are attributed to food services, community services, extracurricular activities, capital outlay and debt service.

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

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
Unaudited

(Table 3)

Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016*	Net Cost of Services 2016*	% of Change in Net Cost
Instruction	\$31,591,154	\$29,097,363	\$29,489,033	\$27,591,798	5.46%
Support Services	19,251,110	19,124,029	18,267,487	18,099,029	5.66%
Operation of Non-Instructional Services	1,840,037	187,258	1,703,309	(5,645)	-3417.24%
Extracurricular Activities	1,169,483	565,149	1,312,387	1,246,126	-54.65%
Capital Outlay	17,475,364	17,475,364	29,950,087	29,393,537	-40.55%
Debt Service	5,845,209	5,845,209	15,065,594	15,065,594	-61.20%
Intergovernmental	0	0	1,353	1,353	-100.00%
Total Cash Disbursements	\$77,172,357	\$72,294,372	\$95,789,250	\$91,391,792	-20.90%

* 2016 numbers are restated, see Note 15.

The District's Funds

Total governmental funds had receipts of \$70,825,585 and disbursements of \$77,172,357. The fund balance of the general fund increased \$2,526,948. The fund balance of the debt service fund increased by \$515,306. The fund balance of the classroom facilities project capital project fund decreased by \$8,165,709, while the other governmental funds balances decreased by \$1,160,634.

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 2017, the District revised its budget to accommodate changes in expected revenues and planned expenditures.

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.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
Unaudited

Debt

As of June 30, 2017, the District had the following outstanding debt:

Refunding of General Obligation Bonds	\$25,629,987
School Improvement General Obligation Bonds	26,155,000
Energy Conservation Bonds:	
Qualified School Construction Bonds	2,235,000
COPS Capital Lease	<u>2,437,000</u>
Total Debt Issues	<u>\$56,456,987</u>

In fiscal year 2014, the District issued \$17,335,000 and \$9,730,000 in voted general obligation bonds for the purpose of additions to Bowman Elementary to house grades PK-2, additions and renovations to Donovan Elementary to house grades three and four, and partial demolition, addition and renovations to Berry Intermediate to house grades five and six. At the secondary level, a new junior high will be built to house grades seven and eight, and there were be additions to Lebanon High School to house grades nine through 12. These bonds were issued for the local portion of State of Ohio Classroom Facilities Assistance Program. The bonds are payable semi-annually on June 1 and December 1 of each year with the first payment having been made on December 1, 2014 and the final payment is due on December 1, 2050. In addition, the District refunded \$9,280,000 of the 2005A Series advanced refunded bonds during fiscal year 2016. These bonds will be paid from the bond retirement fund.

At June 30, 2017, the District's overall legal debt limitation was \$32,294,034, and the unvoted debt margin was \$868,676. The District currently has bond ratings of A+ Stable from Standard & Poor's and Aa3 from Moody's Investor Services. Further information regarding the District's debt can be found in Note 9 to the basic financial statements.

The Future of Lebanon City School District

On November 5, 2013, voters approved a 37-year, 1.87 mill bond levy and corresponding .5 mill permanent improvement maintenance levy to build, renovate and maintain the District's school buildings. The levies provided the local share of funding for school construction under the State of Ohio Classroom Facilities Assistance Program. At the elementary school level, there were additions to Bowman Elementary to house grades PK-2, additions and renovations to Donovan Elementary School to house grades three and four, and partial demolition, addition and renovations to Berry Intermediate School to house grades five and six. At the secondary level, a new junior high was built to house grades seven and eight, and there were additions done to Lebanon High School to house grades nine through 12. We have completed construction on Bowman Elementary, Donovan Elementary, Lebanon Junior High School and Lebanon High School. Renovations to Berry Intermediate are currently underway and are expected to be complete at the beginning of the 2018-19 school year.

Lebanon City School District, Ohio
Management's Discussion and Analysis
June 30, 2017
Unaudited

District Contact Information

This financial report is available to all of the citizens, taxpayers, investors and creditors that may have an interest in the finances of the Lebanon City School District. Anyone having questions regarding this report or desiring additional information may contact (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@lebanonschools.org.

Lebanon City School District, Ohio
Statement of Net Position - Modified Cash Basis
June 30, 2017

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$46,527,442
Cash with Escrow Agents	<u>1,101,956</u>
Total Assets	<u><u>\$47,629,398</u></u>
Net Position:	
Restricted for:	
Other Purposes	\$2,338,225
Debt Service	5,898,207
Capital Projects	17,247,337
Unrestricted	<u>22,145,629</u>
Total Net Position	<u><u>\$47,629,398</u></u>

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, 2017

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants, Interest and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$20,786,879	\$0	\$130,594	(\$20,656,285)
Special	7,096,692	0	1,519,624	(5,577,068)
Vocational	43,430	0	94,219	50,789
Other	3,664,153	716,606	32,748	(2,914,799)
Support Services:				
Pupils	3,070,038	0	15,998	(3,054,040)
Instructional Staff	1,162,485	0	18,980	(1,143,505)
Board of Education	61,414	0	0	(61,414)
Administration	3,649,961	0	73,099	(3,576,862)
Fiscal	1,096,093	0	0	(1,096,093)
Operation and Maintenance of Plant	3,628,750	3,105	0	(3,625,645)
Pupil Transportation	6,129,969	0	6,899	(6,123,070)
Central	452,400	0	9,000	(443,400)
Operation of Non-Instructional Services	1,840,037	786,873	865,906	(187,258)
Extracurricular Activities	1,169,483	571,853	32,481	(565,149)
Capital Outlay	17,475,364	0	0	(17,475,364)
Debt Service	5,845,209	0	0	(5,845,209)
Total Governmental Activities	<u>\$77,172,357</u>	<u>\$2,078,437</u>	<u>\$2,799,548</u>	<u>(72,294,372)</u>
General Receipts:				
Property Taxes Levied for:				
				24,131,054
				5,408,236
				1,493,014
				25,955,143
				8,057,869
				347,706
				364,730
				62,650
				184,096
				5,897
				(112)
				<u>66,010,283</u>
				(6,284,089)
				<u>53,913,487</u>
				<u>\$47,629,398</u>

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, 2017

	GENERAL FUND	DEBT SERVICE FUND	CLASSROOM FACILITIES PROJECT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Equity in Pooled Cash and Investments	\$22,031,450	\$5,898,207	\$14,638,833	\$3,958,952	\$46,527,442
Cash with Escrow Agents	0	0	1,101,956	0	1,101,956
Total Assets	<u>\$22,031,450</u>	<u>\$5,898,207</u>	<u>\$15,740,789</u>	<u>\$3,958,952</u>	<u>\$47,629,398</u>
Fund Balances:					
Restricted	\$109,890	\$5,898,207	\$15,740,789	\$3,734,883	\$25,483,769
Committed	0	0	0	224,069	224,069
Assigned	1,565,327	0	0	0	1,565,327
Unassigned	<u>20,356,233</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,356,233</u>
Total Fund Balances	<u>\$22,031,450</u>	<u>\$5,898,207</u>	<u>\$15,740,789</u>	<u>\$3,958,952</u>	<u>\$47,629,398</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, 2017

	GENERAL FUND	DEBT SERVICE FUND	CLASSROOM FACILITIES PROJECT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Receipts:					
Property and Other Taxes	\$24,131,054	\$5,408,236	\$0	\$1,493,014	\$31,032,304
Intergovernmental	25,362,651	538,450	8,051,957	2,797,466	36,750,524
Interest	103,464	7,921	228,631	25,084	365,100
Tuition and Fees	716,606	0	0	0	716,606
Rent	3,105	0	0	0	3,105
Extracurricular Activities	354,027	0	0	218,618	572,645
Gifts and Donations	62,014	0	0	16,061	78,075
Charges for Services	0	0	0	803,506	803,506
Revenue in Lieu of Taxes	347,706	0	0	0	347,706
Miscellaneous	125,437	0	0	30,577	156,014
Total Receipts	51,206,064	5,954,607	8,280,588	5,384,326	70,825,585
Disbursements:					
Current:					
Instruction:					
Regular	20,191,741	0	0	595,138	20,786,879
Special	5,662,263	0	0	1,434,429	7,096,692
Vocational	43,430	0	0	0	43,430
Other	3,635,149	0	0	29,004	3,664,153
Support Services:					
Pupils	3,054,152	0	0	15,886	3,070,038
Instructional Staff	1,150,615	0	0	11,870	1,162,485
Board of Education	61,005	0	0	409	61,414
Administration	3,567,906	7,682	0	74,373	3,649,961
Fiscal	1,012,130	65,431	0	18,532	1,096,093
Operation and Maintenance of Plant	3,505,135	0	0	123,615	3,628,750
Pupil Transportation	5,155,310	0	0	974,659	6,129,969
Central	432,175	0	0	20,225	452,400
Operation of Non-Instructional Services	1,417	0	0	1,838,620	1,840,037
Extracurricular Activities	802,285	0	0	367,198	1,169,483
Capital Outlay	3,495	0	16,452,209	1,019,660	17,475,364
Debt Service:					
Principal Retirement	334,000	3,295,000	0	0	3,629,000
Interest and Fiscal Charges	145,021	2,071,188	0	0	2,216,209
Total Disbursements	48,757,229	5,439,301	16,452,209	6,523,618	77,172,357
Excess of Receipts Over (Under) Disbursements	2,448,835	515,306	(8,171,621)	(1,139,292)	(6,346,772)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	27,807	0	0	0	27,807
Transfers - In	945	0	0	4,997	5,942
Transfers - Out	0	0	0	(45)	(45)
Refund of Prior Year Receipts	(3,370)	0	0	0	(3,370)
Refund of Prior Year Expenditures	6,477	0	5,912	17,433	29,822
Insurance Recoveries	2,639	0	0	0	2,639
Advances - In	1,036,445	0	0	948,462	1,984,907
Advances - Out	(992,830)	0	0	(992,189)	(1,985,019)
Total Other Financing Sources (Uses)	78,113	0	5,912	(21,342)	62,683
Net Change in Fund Cash Balances	2,526,948	515,306	(8,165,709)	(1,160,634)	(6,284,089)
Fund Cash Balances at Beginning of Year - Restated (See Note 15)	19,504,502	5,382,901	23,906,498	5,119,586	53,913,487
Fund Cash Balances at End of Year	\$22,031,450	\$5,898,207	\$15,740,789	\$3,958,952	\$47,629,398

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgeted Basis Receipts:				
Property and Other Taxes	\$23,820,519	\$23,820,519	\$24,131,054	\$310,535
Intergovernmental	25,191,932	25,191,932	25,362,651	170,719
Interest	84,000	84,000	103,464	19,464
Tuition and Fees	202,310	202,310	366,351	164,041
Rent	25,000	25,000	3,105	(21,895)
Extracurricular	238,000	238,000	249,347	11,347
Gifts and Donations	32,500	32,500	27,031	(5,469)
Revenue in Lieu of Taxes	445,000	445,000	347,706	(97,294)
Miscellaneous	104,000	104,000	117,411	13,411
Total Budgeted Basis Receipts	50,143,261	50,143,261	50,708,120	564,859
Budgeted Basis Disbursements:				
Current:				
Instruction:				
Regular	19,387,159	19,738,147	20,155,575	(417,428)
Special	5,460,842	5,708,523	5,821,308	(112,785)
Vocational	35,218	68,306	56,664	11,642
Other	3,986,913	4,093,018	3,719,736	373,282
Support Services:				
Pupils	3,024,188	3,059,162	3,112,615	(53,453)
Instructional Staff	1,215,983	1,187,295	1,125,809	61,486
Board of Education	67,169	86,745	61,308	25,437
Administration	3,585,772	3,752,597	3,670,844	81,753
Fiscal	1,118,439	1,097,282	1,033,008	64,274
Operation and Maintenance of Plant	4,003,943	4,020,916	3,797,746	223,170
Pupil Transportation	5,753,316	5,837,543	5,362,593	474,950
Central	446,458	472,338	447,123	25,215
Operation of Non-Instructional Services	1,500	1,421	1,417	4
Extracurricular Activities	712,614	716,145	707,890	8,255
Capital Outlay	3,495	3,495	3,495	0
Debt Service:				
Principal Retirement	334,000	334,000	334,000	0
Interest and Fiscal Charges	269,031	269,031	144,121	124,910
Issuance Costs	900	900	900	0
Intergovernmental	10,000	10,000	0	10,000
Total Budgeted Basis Disbursements	49,416,940	50,456,864	49,556,152	900,712
Excess of Budgeted Basis Receipts Over (Under) Budgeted Basis Disbursements	726,321	(313,603)	1,151,968	1,465,571
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	275,000	275,000	2,266	(272,734)
Transfers - In	2,500	2,500	1,058	(1,442)
Transfers - Out	(5,000)	(5,000)	(12)	4,988
Proceeds from Sale of Capital Assets	10,000	10,000	27,807	17,807
Insurance Recoveries	0	0	2,639	2,639
Advances - In	1,024,000	1,024,000	1,032,504	8,504
Advances - Out	(996,053)	(988,600)	(976,660)	11,940
Total Other Financing Sources (Uses)	310,447	317,900	89,602	(228,298)
Net Change in Fund Balance	1,036,768	4,297	1,241,570	1,237,273
Fund Balance at Beginning of Year	18,102,863	18,102,863	18,102,863	0
Prior Year Encumbrances Appropriated	1,108,455	1,108,455	1,108,455	0
Fund Balance at End of Year	\$20,248,086	\$19,215,615	\$20,452,888	\$1,237,273

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$154,262	\$145,421
Net Position:		
Restricted for Students	0	145,421
Held in Trust for Scholarships	154,262	0
Total Net Position	\$154,262	\$145,421

See Accompanying Notes to the Basic Financial Statements

Lebanon City School District, Ohio
Statement of Changes in Fiduciary Net Position - Modified Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
Additions:	
Interest	\$1,185
Gifts and Donations	5,545
Total Additions	6,730
Deductions:	
Payments in Accordance with Trust Agreements	13,692
Total Deductions	13,692
Change in Net Position	(6,962)
Net Position Beginning of Year	161,224
Net Position End of Year	\$154,262

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, 2017

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 261 non-certified employees, 330 certified full time personnel, who provide services to 5,299 students and other community members. The District currently operates seven 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. 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 Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council (SWEPC), the Warren County Career Center and the Ohio SchoolComp Group Retro Program (GRP). These organizations are presented in Note 11 to the basic financial statements.

As discussed further in section C of Note 2, these financial statements are presented on a modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a statement of net position - modified cash basis and a statement of activities - modified cash basis, 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, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

The statement of net position - modified cash basis and the statement of activities - modified cash basis 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 that are governmental and those that are business-type. The District, however, has no activities which are reported as business-type. The government-wide statements also exclude fiduciary funds.

The statement of net position - modified cash basis presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities - modified cash basis 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. 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 Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. 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 retirement and interest and fiscal charges.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classroom Facilities Project Fund – The classroom facilities project fund accounts for financial resources that are restricted, committed, or assigned to expenditure for capital outlays. These monies are received and expended in connection with contracts entered into by the School District and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

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

Fiduciary Fund Types:

Fiduciary fund reporting focuses on net position and changes in net position. 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 position) and do not involve measurement of results of operations. The District's only fiduciary funds are a private purpose trust fund and two agency funds. The private purpose trust fund accounts for college scholarship programs for students and unclaimed monies. The District's agency funds account for those student activities, which consist of a student body, student president, student treasurer and faculty advisor as well as for athletic tournaments.

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, other than the 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.

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

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in the final amended certificate issued during fiscal year 2017.

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.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, with the exception of Cash with Escrow Agents, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as Equity in Pooled Cash and Investments.

At June 30, 2017, the District's investments included money market funds, the State Treasury Reserve of Ohio (STAR Ohio), STAR Plus, commercial paper, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Association Notes, a Federal Home Loan Bank Note, a Federal Home Loan Bank Bond, and a Federal Home Loan Mortgage Corporation Note.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2017 were \$103,464 which included \$61,821 assigned from other District funds. Interest revenue was posted to the debt service fund, classroom facilities project fund, the permanent improvement fund, the building fund, the food service fund, the classroom facilities maintenance fund, the auxiliary services fund, and to the private purpose trust fund in the amounts of \$7,921, \$228,631, \$4,646, \$12,173, \$3,706, \$4,189, \$370 and \$1,185, respectively.

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 Equity in Pooled Cash and Investments.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Advances in and advances out do not equal on the statement of cash receipts, disbursements and changes in modified cash basis fund balances due to a an advance with the agency funds of \$112.

G. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

H. Fund Balance

Fund balance is divided into five classifications 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 classifications are as follows:

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 or enabling legislation.

Enabling legislation authorizes the District to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

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 Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the District Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. 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, 2017**

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 or a District official delegated that authority by resolution or by State Statute.

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 Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Of the restricted net position, none has resulted from enabling legislation.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

NOTE 3 - 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 Balance - 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 a restriction, commitment or assignment of fund balance for that portion of outstanding encumbrances (modified cash basis).
2. Two funds are included in the general fund (modified cash 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.

Modified Cash Basis	\$2,526,948
Net Adjustments	(13,236)
Funds Budgeted Elsewhere	351
Adjustment for Encumbrances	<u>(1,272,493)</u>
Budget Basis	<u><u>\$1,241,570</u></u>

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and certain tangible personal property located in the District. Real property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, 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 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 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.

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, 2017, are available to finance fiscal year 2017 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 2017 taxes were collected are:

	<u>2016 Second- Half Collections</u>		<u>2017 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$813,270,370	94.89%	\$822,610,610	94.70%
Public Utility	<u>43,796,800</u>	<u>5.11%</u>	<u>46,065,110</u>	<u>5.30%</u>
Total Assessed Value	<u>\$857,067,170</u>	<u>100.00%</u>	<u>\$868,675,720</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$63.79		\$63.39	

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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, 2017.

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 five years from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies held by the District can be deposited or invested in the following securities:

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

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

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$8,103,953 of the District's bank balance of \$16,157,433 was exposed to custodial credit risk. All statutory requirements for the deposit of money had been followed.

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, 2017, 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>Cost</u>	<u>1-2</u>	<u>3 or more</u>	
Money Market Funds	\$9,682,581	\$0	\$0	28.37%
STAR Ohio	11,261,218	0	0	33.00%
Certificates of Deposit	2,976,000	2,976,000	0	8.72%
Commercial Paper	3,886,271	3,886,271	0	11.39%
Federal National Mortgage Association Notes	1,218,419	553,419	665,000	3.57%
Federal Home Loan Mortgage Association Notes	544,321	219,951	324,370	1.59%
Federal Home Loan Bank Note	159,821	159,821	0	0.47%
Federal Home Loan Bank Bond	2,400,000	0	2,400,000	7.03%
Federal Home Loan Mortgage Corporation Note	2,000,000	0	2,000,000	5.86%
Total Investments	<u>\$34,128,631</u>	<u>\$7,795,462</u>	<u>\$5,389,370</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: STAR Ohio's ratings as of June 30, 2017 from Standard and Poor's are AAAM. The Federal Home Loan Mortgage Association Notes, Federal National Mortgage Association Notes, Federal Home Loan Bank Note, Federal Home Loan Bank Bond, and the Federal Home Loan Mortgage Corporation Discount Note carry a rating of AA+ by Standard and Poor's. The Commercial Paper carry a rating of A-1+ by Standard and Poor's. The Money Market Funds carry no ratings. 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, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment in the money market mutual funds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District's investment policy does not address investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District contracted with the Rixey-Berry 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 Rixey-Berry Insurance Company and holds a \$1,000 deductible.

The maintenance vehicles and grounds equipment are insured by the Rixey-Berry 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 2017, the District participated in the Ohio SchoolComp Group Retro Program (GRP) sponsored by both the Ohio School Board's Association and the Ohio Association of School Business Officials (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others.

While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

B. Plan Description - School Employees Retirement System (SERS)

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.00 percent. There was nothing allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$1,229,392 for fiscal year 2017.

C. Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$3,037,783 for fiscal year 2017.

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability Prior Measurement Date	0.2453715%	0.18463815%	
Proportionate Share of the Net Pension Liability Current Measurement Date	<u>0.2465830%</u>	<u>0.19016297%</u>	
Change in Proportionate Share	<u>0.0012115%</u>	<u>0.0055248%</u>	
Proportionate Share of the Net Pension Liability	\$18,047,600	\$63,653,278	\$81,700,878

E. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.50%
US Stocks	22.50%	4.75%
Non-US Stocks	22.50%	7.00%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	8.00%
Real Assets	15.00%	5.00%
Multi-Asset Strategies	10.00%	3.00%
Total	100.00%	

1. Discount Rate

The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

2. Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$23,893,898	\$18,047,600	\$13,154,006

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	8.00%
International Equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed Income	18.00%	3.75%
Real Estate	10.00%	6.75%
Liquidity Reserves	1.00%	3.00%
Total	100.00%	7.61%

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

1. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

2. Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$84,590,034	\$63,653,278	\$45,991,890

3. Changes Between Measurement Date and Report Date

In March, 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 8 - POSTEMPLOYMENT BENEFITS (continued)

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 fiscal year 2017, nothing was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2017, this amount was \$23,500.

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

The District's contributions assigned to health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were \$225,382, \$213,884, and \$208,455, respectively; 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2017, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2017, 2016 and 2015 were \$69,852, \$68,920 and \$66,634, respectively; 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

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 2017, STRS Ohio did not allocate any employer contributions of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015, were \$0, \$0, and \$0, respectively.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 9 – LONG-TERM OBLIGATIONS

The changes in the District’s long-term obligations during fiscal year 2017 were as follows:

	Amount Outstanding 7/1/2016	Additions	Deductions	Amount Outstanding 6/30/2017	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds:					
December, 2015 Refunding of General					
Obligation Bonds, 2%-3%	\$9,130,000	\$0	\$1,505,000	\$7,625,000	\$1,535,000
May, 2014 Refunding of General					
Obligation Bonds, 2%-5%	3,720,000	0	195,000	3,525,000	205,000
May, 2014 School Improvement General					
Obligation Bonds, 4.1%	17,115,000	0	165,000	16,950,000	175,000
April, 2014 School Improvement General					
Obligation Bonds, 1%-4%	9,410,000	0	205,000	9,205,000	205,000
2007 Refunding of General					
Obligation Bonds, 4%-5%	<u>15,704,987</u>	<u>0</u>	<u>1,225,000</u>	<u>14,479,987</u>	<u>1,275,000</u>
Total General Obligation Bonds	<u>55,079,987</u>	<u>0</u>	<u>3,295,000</u>	<u>51,784,987</u>	<u>3,395,000</u>
Energy Conservation Bonds:					
2011 Qualified School Construction					
Bonds, 4.45%	<u>2,455,000</u>	<u>0</u>	<u>220,000</u>	<u>2,235,000</u>	<u>225,000</u>
Total Energy Conservation Bonds	<u>2,455,000</u>	<u>0</u>	<u>220,000</u>	<u>2,235,000</u>	<u>225,000</u>
Capital Leases:					
COPS Capital Lease	<u>2,551,000</u>	<u>0</u>	<u>114,000</u>	<u>2,437,000</u>	<u>121,000</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$60,085,987</u>	<u>\$0</u>	<u>\$3,629,000</u>	<u>\$56,456,987</u>	<u>\$3,741,000</u>

General Obligation Bonds

In fiscal year 2002, the District issued \$40,000,000 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 are paid from the debt service fund.

In fiscal year 2014, the District issued \$17,335,000 and \$9,730,000 in voted general obligation bonds for the purpose of additions to Bowman Elementary to house grades PK-two, additions and renovations to Donovan Elementary to house grades three and four, and partial demolition, addition and renovations to Berry Intermediate to house grades five and six. At the secondary level, a new junior high will be built to house grades seven and eight, and there were be additions to Lebanon High School to house grades nine through 12. These bonds were issued for the local portion of State of Ohio Classroom Facilities Assistance Program. The bonds are payable semi-annually on June 1 and December 1 of each year with the first payment due on December 1, 2014 and the final payment is due on December 1, 2050. In addition, the District refunded \$3,835,000 of the 2005 Series general obligation bonds during fiscal year 2014. These bonds will be paid from the debt service fund. The District refunded \$9,280,000 of the 2005 series refunded bonds in December, 2015. These bonds will also be paid from the debt service fund.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

Energy Conservation Bonds

In fiscal year 2012, the District issued \$3,015,000 in School Energy Conservation Improvement Bonds - Qualified School Construction Bonds (Series 2011B). 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. These bonds are paid from the general fund.

Capital Leases

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 are paid from the general fund.

All general obligation debt is supported by the full faith and credit of the District. At June 30, 2017, the District's overall legal debt limitation was \$32,294,035, and the unvoted debt margin was \$868,676.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2017, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$3,741,000	\$2,118,055	\$5,859,055
2019	2,747,000	2,034,570	4,781,570
2020	2,834,000	1,982,607	4,816,607
2021	2,773,318	1,921,890	4,695,208
2022	2,923,262	1,852,258	4,775,520
2023-2027	13,454,407	7,886,731	21,341,138
2028-2032	10,559,000	4,658,016	15,217,016
2033-2037	4,045,000	3,343,148	7,388,148
2038-2042	4,620,000	2,506,805	7,126,805
2042-2047	4,730,000	1,353,062	6,083,062
2048-2051	4,030,000	351,476	4,381,476
Total	<u>\$56,456,987</u>	<u>\$30,008,618</u>	<u>\$86,465,605</u>

**Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

NOTE 10 – LEASES

The District leases buildings, vehicles and other equipment under noncancelable leases. The District disbursed \$248,864 to pay lease costs for the year ended June 30, 2017. Future lease payments are as follows:

Fiscal Year Ending June 30,	Total Payments
2018	\$249,516
2019	248,818
2020	248,768
2021	248,339
2022	248,507
2023-2027	1,240,076
2028-2031	988,620
Total	3,472,644
Less: Amount Representing Interest	(1,035,644)
Present Value of Net Minimum Lease Payments	\$2,437,000

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Southwest Ohio Computer Association

The District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The District paid SWOCA \$191,737 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

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.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL
(continued)

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 2017, the District paid \$2,403 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Gary Greenberg, who serves as Executive Director, at 1205 E 5th St, Dayton, OH 45402.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SWEPC) is a purchasing cooperative made up of over 126 public school districts in 18 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 SWEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SWEPC is held in trust for the member districts. Any district withdrawing from the SWEPC shall forfeit its claim to any and all SWEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Dr., Suite 208, Vandalia, OH 45377.

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 Cathy McConigle, who serves as treasurer, at 3525 State Route 48, Lebanon, Ohio 45036.

B. Insurance Purchasing Pool

Ohio SchoolComp Group Retro Program

The District participates in the Ohio SchoolComp Group Retro Program (GRP) sponsored by both the Ohio School Board's Association and the Ohio Association of School Business Officials for workers' compensation, an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Board of directors. The Executive Director of the GRP, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 12 – 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:

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 12 – FUND BALANCE (continued)

	General	Debt Service Fund	Classroom Facilities Project Fund	Other Governmental Funds	Total Governmental
Restricted for:					
Career Tech Funds	\$109,890	\$0	\$0	\$0	\$109,890
Debt Retirement	0	5,898,207	0	0	5,898,207
Permanent Improvements	0	0	0	664,697	664,697
Classroom Facilities Project	0	0	15,740,789	787,826	16,528,615
Building Projects	0	0	0	44,031	44,031
Energy Conservation Projects	0	0	0	9,994	9,994
Food Service	0	0	0	824,968	824,968
Miscellaneous Local Grants	0	0	0	9,753	9,753
Classroom Facilities Maintenance	0	0	0	1,129,280	1,129,280
Athletic Activities	0	0	0	80,277	80,277
Auxiliary Services	0	0	0	93,743	93,743
Data Connectivity	0	0	0	8	8
Making Middle Grades Work	0	0	0	4,851	4,851
Special Education (IDEA, Part B)	0	0	0	72,007	72,007
LEP (Title III)	0	0	0	4,845	4,845
Intervention (Title I)	0	0	0	6,849	6,849
Teacher Quality Improvement (Title IIA)	0	0	0	1,754	1,754
Total Restricted	<u>109,890</u>	<u>5,898,207</u>	<u>15,740,789</u>	<u>3,734,883</u>	<u>25,483,769</u>
Committed for:					
Athletic Stadium Improvements	0	0	0	224,069	224,069
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>224,069</u>	<u>224,069</u>
Assigned for:					
School Supplies	167,625	0	0	0	167,625
Public School Support	125,209	0	0	0	125,209
Educational Activities	1,272,493	0	0	0	1,272,493
Total Assigned	<u>1,565,327</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,565,327</u>
Unassigned	<u>20,356,233</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,356,233</u>
Total Fund Balance	<u>\$22,031,450</u>	<u>\$5,898,207</u>	<u>\$15,740,789</u>	<u>\$3,958,952</u>	<u>\$47,629,398</u>

NOTE 13 – SET-ASIDE CALCULATION

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the 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, 2017

NOTE 13 – SET-ASIDE CALCULATION (continued)

The following cash basis information describes the change in the fiscal year-end set-aside amounts for budget capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements
Set-aside Reserve Balance as of June 30, 2016	\$0
Current Year Set-aside Requirement	955,239
Qualifying Disbursements	(277,478)
Current Year Offsets	(1,493,017)
Total	(\$815,256)
Set-aside Reserve Balance as of June 30, 2017	\$0

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.

NOTE 14 - INTERFUND TRANSFERS

	Transfers In	Transfers Out
Major Fund:		
General Fund	\$945	\$0
Nonmajor Funds:		
Athletics	4,997	45
Fiduciary Funds:		
Private Purpose Trust	0	500
Agency:		
Tournaments	0	5,397
Total All Funds	\$5,942	\$5,942

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. The transfers out of the athletics fund and private purpose trust fund were to move the balance of stale dated checks back into the general fund to be held for five years. The transfers out of the tournaments fund were to cover the costs of the OHSAA sponsored tournaments that were paid out of the athletics fund and general fund.

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES

A. Change in Accounting Principles

For fiscal year, 2017, the School District has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*,” GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*,” GASB Statement No. 80, “*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*,” and GASB Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*.”

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School District.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions to both employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the School District.

B. Restatement of Prior Year Balances

It was discovered that Cash with Escrow Agents for the Ohio School Facilities Construction project was understated for the prior fiscal year. This balance was brought onto the financial statements for the fiscal year June 30, 2017. The effects of these changes on the Classroom Facilities Project Fund balance and Net Position for Governmental Activities as previously reported are below:

Lebanon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES (continued)

	Classroom Facilities Project Fund
Fund Balance at June 30, 2016	\$23,128,276
Restatement for Cash with Escrow Agents	778,222
Restated Fund Balance at July 1, 2016	\$23,906,498
	Governmental Activities
Net Position at June 30, 2016	\$53,135,265
Restatement for Cash with Escrow Agents	778,222
Restated Net Assets at July 1, 2016	\$53,913,487

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, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2017 if applicable, cannot be determined at this time.

B. Litigation

The District was a party to legal proceedings at June 30, 2017. 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.

C. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year-end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements, is not determinable at this time. Management believes this may result in either an additional receivable to, or liability of, the School District.

NOTE 17 – TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area (“CRA”) program with the taxing districts of the District. The CRA program is a directive incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, the City of Lebanon has entered into such an agreement. Under this agreement the District’s property taxes were reduced by approximately \$264,214. The District is receiving \$82,931 from this other government in association with the forgone property tax revenue.

LEBANON CITY SCHOOL DISTRICT



**Single Audit Reports
June 30, 2017**

PLATTENBURG
Certified Public Accountants

**LEBANON CITY SCHOOL DISTRICT
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor, Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through Ohio Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	3L70	10.553	\$60,919	\$0
National School Lunch Program	3L60	10.555	<u>417,082</u>	<u>98,593</u>
Total Child Nutrition Cluster			<u>478,001</u>	<u>98,593</u>
Total U.S. Department of Agriculture			<u>478,001</u>	<u>98,593</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	3M20	84.027	949,502	0
Special Education - Preschool Grants	3C50	84.173	<u>7,471</u>	<u>0</u>
Total Special Education Cluster			<u>956,973</u>	<u>0</u>
Title I Grants to Local Educational Agencies	3M00	84.010	620,761	0
English Language Acquisition State Grants	3Y70	84.365	18,938	0
Improving Teacher Quality State Grants	3Y60	84.367	<u>115,774</u>	<u>0</u>
Total Department of Education			<u>1,712,446</u>	<u>0</u>
Total Federal Assistance			<u><u>\$2,190,447</u></u>	<u><u>\$98,593</u></u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' 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***

Board of Education
Lebanon City School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lebanon City School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2017, wherein we noted the District presented financial statements on the modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. See 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattensburg & Associates, Inc.

Plattensburg & Associates, Inc.
Cincinnati, Ohio
December 19, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Board of Education
Lebanon City School District

Report on Compliance for Each Major Federal Program

We have audited the Lebanon City School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of 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, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 19, 2017, which contained unmodified opinions on those financial statements, wherein we noted the District presented financial statements on the modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 19, 2017

**LEBANON CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on the financial statements: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

- Special Education Cluster:
 - Special Education – Grants to States CFDA #84.027
 - Special Education – Preschool Grants CFDA #84.173

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? No

Section II – Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

Finding 2017-001 – Material Weakness – Controls Related to Financial Reporting

The presentation of financial statements and related footnotes that are free of material misstatement is the responsibility of the District's management. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to preparing financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes in a timely manner prior to audit.

Our audit identified misstatements in the District's financial statements that required adjustment in order to present the financial statements in accordance with the modified cash basis of accounting.

We provided adjustments to the District which corrected the misstatements prior to the issuance of the financial statements. The adjustments related to cash being understated on the financial statements due to checks being incorrectly recorded as outstanding checks and an escrow account that was not included on the financial statements. The District had an ongoing Ohio Facilities Construction Commission agreement where the District is required to establish an escrow account to hold the retainage until the project is completed. The District has two construction companies; Lend Lease Construction, Inc. and Monarch Construction Company. An escrow account was set up for Lend Lease Construction, Inc. in the prior year, but not for Monarch Construction Company. The Lend Lease Construction, Inc. escrow account had a balance in the prior year and the District failed to deposit the checks into the escrow account timely. The checks to these two companies were recorded as outstanding checks but were held in the Treasurer's office.

Recommendation:

Develop a systematic, detailed financial statement preparation and review process. We also recommend the District establish an escrow account for Monarch Construction Company and deposits checks into both accounts in a timely manner.

District's Response:

The District Agrees. See Corrective Action Plan.

Finding 2017-002 – Noncompliance – GAAP Reporting

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2017, the District prepared financial statements using the modified cash basis of accounting. Although formatted similar to GAAP basis financial statements, the District's modified cash basis financial statements and notes omit certain assets, liabilities, deferred inflows, deferred outflows, fund equities, and disclosures. The differences between the District's financial statements and GAAP basis financial statements cannot be reasonably determined but presumably such differences are material. Pursuant to Ohio Revised Code Section 117.38 the District may be fined and/or subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

District's Response:

The District evaluated the cost-benefit relationship of preparing GAAP statements versus modified cash financial statements for the fiscal year ended June 30, 2017, and determined that the significant cost of compliance exceeds the benefit received. See Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

None

**LEBANON CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

Finding Number	Finding Summary	Finding Corrected	Initial Occurrence	Explanation
2016-001	Misstatements in the District's financial statements that required adjustment in order to present the financial statements in accordance with the modified cash basis of accounting.	No	Fiscal Year 2016	The District's financial statement preparation review process did not present the financial statements in accordance with the modified cash basis of accounting. See Corrective Action Plan.
2016-002	Ohio Revised Code § 117.38 & Ohio Administrative Code § 117-2-03(B) require the District to prepare financial statements in accordance with GAAP.	No	Fiscal Year 2005	The District prepared <i>GASB 34 Look-Alike Statements</i> pursuant to a cost-benefit analysis. See Corrective Action Plan.

**LEBANON CITY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2017**

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2017-001	The School District plans to develop a detailed financial statement preparation and review process in order to present the financial statements in accordance with the modified cash basis of accounting.	August 2018	Eric Sotzing, Treasurer
2017-002	The School District plans to continue to prepare modified cash basis financial statements due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP).	N/A	Eric Sotzing, Treasurer



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
MARCH 29, 2018