

Lockland Local School District

Basic Financial Statements
Year Ended June 30, 2010
with Independent Auditors' Report





Dave Yost • Auditor of State

Board of Education
Lockland Local School District
210 North Cooper Avenue
Lockland, Ohio 45215

We have reviewed the *Independent Auditors' Report* of the Lockland Local School District, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lockland Local 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 11, 2011

This Page is Intentionally Left Blank.

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis.....	10
Statement of Activities – Modified Cash Basis.....	11
Fund Financial Statements:	
Statement of Assets and Fund Balances - Modified Cash Basis – Governmental Funds.....	12
Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis - Governmental Funds.....	13
Statement of Fiduciary Net Assets – Modified Cash Basis - Fiduciary Funds.....	14
Notes to the Basic Financial Statements	15 - 33
Required Supplementary Information	
Schedule of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual (Budgetary Basis) – General Fund.....	34
Notes to the Required Supplementary Information	35
Additional Information:	
Schedule of Expenditures of Federal Awards	36
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37 - 38
Report on Compliance with Requirements That Could Have a Direct And Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	39 - 40
Schedule of Findings and Questioned Costs – With Management Responses	41 - 42
Schedule of Prior Audit Findings	43 - 44

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Lockland Local School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lockland Local School District (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lockland Local School District as of June 30, 2010, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

160 north breiel blvd.
middletown, oh 45042

www.cshco.com
p. 513.424.5000
f. 513.422.7882

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 34 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
January 13, 2011

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Lockland Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- For governmental activities, net assets decreased \$793,466, which represents an 18 percent decrease from 2009.
- General receipts accounted for \$8 million or 77 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, and operating grants and contributions accounted for \$2.4 million or 23 percent of total governmental receipts of \$10.4 million.
- The District had \$11.2 million in disbursements related to governmental activities; only \$2.4 million of these disbursements were offset by program specific charges for services and sales, and operating grants and contributions. General receipts (primarily taxes and unrestricted grants and entitlements) of \$8 million provided resources for these programs but did not cover the full costs resulting in a decrease of \$793,466 in net assets.
- The District's major funds were the general fund and debt service fund. All governmental funds had total receipts of \$9.4 million and disbursements of \$9.7 million. The net change in fund balance for the year was most significant in the debt service fund, where the debt service fund's balance decreased by \$433,047 due to the District contributing cash to the refunding of existing bonds.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The Statement of Net Assets and Statement of Activities provide information about the cash activities of the District as a whole. Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities reflect how the District performed financially during 2010, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental activities of the District at year-end. The Statement of Activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, the reader can utilize these statements as one measure of the District's financial condition. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial condition is improving or deteriorating. When evaluating the District's financial condition, the reader should also consider other nonfinancial factors as well, such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the Statement of Net Assets and the Statement of Activities, all of the District's programs and services are reported as Governmental Activities.

Reporting the District's Most Significant Funds

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's major funds.

Governmental funds. All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

Fiduciary Funds. The District only has an agency fund. All of the District's fiduciary activity is reported in a separate Statement of Fiduciary Net Asset – Modified Cash Basis. We excluded these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature and do not involve measurement of results of operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the District's net assets at June 30, 2010 and 2009:

	2010 Governmental Activities	2009 Governmental Activities
Assets:		
Cash and Investments	\$3,572,937	\$4,366,403
<i>Total Assets</i>	<u>\$3,572,937</u>	<u>\$4,366,403</u>
Net Assets:		
Restricted	\$1,185,637	\$1,817,027
Unrestricted	<u>2,387,300</u>	<u>2,549,376</u>
<i>Total Net Assets</i>	<u>\$3,572,937</u>	<u>\$4,366,403</u>

The restricted net assets include amounts restricted for capital projects, debt service, set-asides and other purposes. These amounts are held to be used for specific purposes. The balance of unrestricted net assets (\$2,387,300) may be used to meet the government's ongoing obligations to citizens and creditors.

The decrease in cash is largely a result of a cash contribution of \$500,000 towards the debt refunding and disbursements exceeding receipts by approximately \$293,000.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

The table below shows the net changes in net assets for fiscal year 2010 compared to 2009.

	2010 Governmental Activities	2009 Governmental Activities	Increase (Decrease)
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$ 1,049,916	\$ 998,132	\$ 51,784
Operating Grants and Contributions	1,328,770	1,778,824	(450,054)
Capital Grants and Contributions	5,145	-	5,145
Total Program Receipts	2,383,831	2,776,956	(393,125)
General Receipts:			
Property Taxes	2,818,769	2,979,184	(160,415)
Grants and Entitlements	3,978,919	2,889,832	1,089,087
Premium on Issuance of Bonds	13,192	-	13,192
Proceeds from Sale of Bonds	995,000	-	995,000
Investment Earnings	34,406	64,202	(29,796)
Miscellaneous	207,157	35,160	171,997
Total General Receipts	8,047,443	5,968,378	2,079,065
Total Receipts	10,431,274	8,745,334	1,685,940
Disbursements:			
Instruction:			
Regular	3,987,715	3,646,353	341,362
Special	924,619	697,541	227,078
Vocational	3,540	37,430	(33,890)
Other Instruction	8,556	23,486	(14,930)
Support Services:			
Pupils	362,249	387,729	(25,480)
Instructional Staff	785,768	640,425	145,343
Board of Education	77,503	106,878	(29,375)
Administration	811,627	869,710	(58,083)
Fiscal	266,024	287,819	(21,795)
Business	6,865	5,124	1,741
Operation and Maintenance of Plant	1,319,977	1,012,009	307,968
Pupil Transportation	23,735	14,762	8,973
Central	106,380	135,839	(29,459)
Non-instructional services:			
Extracurricular Activities	288,467	271,875	16,592
Community Services	123,477	136,625	(13,148)
Food Service	228,806	198,918	29,888
Capital Outlay	-	466,538	(466,538)
Debt Service:			
Principal Retirement	350,000	370,000	(20,000)
Interest on Long-Term Debt	41,240	75,835	(34,595)
Payment to refunded bond escrow agent	1,481,853	-	1,481,853
Issuance costs	26,339	-	26,339
Total Disbursements	11,224,740	9,384,896	1,839,844
Changes in Net Assets	(793,466)	(639,562)	(153,904)
Beginning Net Assets	4,366,403	5,005,965	
Ending Net Assets	\$ 3,572,937	\$ 4,366,403	

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

Of the total governmental activities receipts of \$10,431,274, \$2,383,831 (23%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 35% (\$2,818,769) comes from property tax levies and 49% (3,978,919) is from state funding. The District's operations are reliant upon its property tax levy and state's foundation program.

Governmental Activities

The District's governmental activities net assets decreased by \$793,466. Increases in receipts are primarily a result of increased state monies from school foundation and a state subsidy from the loss of tangible personal property taxes. The overall increase in receipts did not cover the increase in disbursements, due mainly to a \$500,000 contribution to refund an outstanding bond issue and the District replacing the gym floor.

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the receipts generated by each function. \$2,383,831 of the cost of the general government programs was recouped in program receipts. Instruction costs were \$4,924,430, but program receipts contributed to fund 30% of these costs. Thus, general receipts of \$3,425,518 were used to support the remainder of the instruction costs.

	2010		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$4,924,430	\$3,425,518	\$4,404,810	\$2,945,441
Support Services:				
Pupils and Instructional Staff	1,148,017	824,103	1,028,154	454,588
Board of Education, Administration, Fiscal and Business	1,162,019	1,144,737	1,269,531	1,234,980
Operation and Maintenance of Plant	1,319,977	1,216,499	1,012,009	1,012,009
Pupil Transportation	23,735	23,735	14,762	14,762
Central	106,380	92,308	135,839	133,769
Non-instructional services:				
Extracurricular activities	288,467	246,710	271,875	240,796
Community services	123,477	(17,148)	136,625	(2,519)
Food Service	228,806	(14,985)	198,918	5,929
Capital Outlay	-	-	466,538	122,350
Debt Service:				
Principal retirement	350,000	350,000	370,000	370,000
Interest on long-term debt	41,240	41,240	75,835	75,835
Payment to refunded bond escrow agent	1,481,853	1,481,853	-	-
Issuance costs	26,339	26,339	-	-
Total Disbursements	<u>\$11,224,740</u>	<u>\$8,840,909</u>	<u>\$9,384,896</u>	<u>\$6,607,940</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of these funds comprise \$3,373,002 (94%) of the total \$3,572,937 governmental fund assets.

General Fund: Fund balance at June 30, 2010 was \$3,049,259, including \$2,056,691 of unreserved fund balance, which represents 28% of disbursements for fiscal year 2010. The primary reasons for the decrease in fund balance is due to an increase in staffing of two teachers; an increase in tuition payments to other districts due to students leaving the District through open enrollment; and an increase in tuition to students attending community schools.

Debt Service Fund: The fund balance at June 30, 2010 was \$323,743, which will be used for future principal and interest payments on long-term debt. Current year change in fund balance was a decrease of \$433,047. This decrease is a result of the District contributing \$500,000 toward their debt refunding.

General Fund Budgeting 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. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2010, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis receipts and other financing sources were \$7.5 million, an increase from original estimates of \$6.7 million due to an increase in the estimate of state monies related to foundation and the subsidy from the loss of tangible personal property taxes. Final budgeted disbursements and other financing uses were equal to the original estimates of \$7.97 million. Actual disbursements and other financing uses were \$7.6 million due to careful monitoring of expenditures in anticipation of decreased revenues in the future.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

Debt

Under the modified cash basis of accounting, the District does not report bonds, long-term notes or short-term notes in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following information about debt.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

During fiscal year 2010, the District issued \$995,000 in School Improvement Refunding Bonds to refund \$1,430,000 of outstanding bonds. The District also contributed \$500,000 of the Debt Service Fund balance toward the refunding. Capital appreciation bonds of \$309,213 are also outstanding at fiscal year end. These bonds appreciate each year through accreted interest until due. The amount due within one year is \$330,000. See Note 5 to the basic financial statements for more information regarding debt obligations.

Current Financial Related Activities

The District had approximately \$2.4 million in unrestricted net assets on the modified cash basis as of June 30, 2010. As the preceding information shows, the District heavily depends on its property taxpayers. However, financially the future is not without challenges.

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property will begin being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunications property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are to be reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

While the District was successful in increasing its tax revenue base in 2000, this increase was a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast.

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset by decreases in state foundation payments. With its major sources of revenue not keeping pace with expenditure increases, the District must seek additional tax revenues to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. Virtually no additional state revenue will be available to the District. Thus, both taxes and state revenue are fixed or declining.

The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at Lockland Local School District, 210 N. Cooper Avenue, Lockland, Ohio 45215.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets - Modified Cash Basis

June 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,768,832
Restricted cash	<u>804,105</u>
Total assets	<u>3,572,937</u>
Net Assets:	
Restricted for:	
Capital projects	6,033
Debt service	323,743
Set asides	804,105
Other purposes	51,756
Unrestricted	<u>2,387,300</u>
Total net assets	<u>\$ 3,572,937</u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities - Modified Cash Basis

Year Ended June 30, 2010

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 3,987,715	820,907	197,894	5,145	(2,963,769)
Special education	924,619	-	474,966	-	(449,653)
Vocational	3,540	-	-	-	(3,540)
Other instruction	8,556	-	-	-	(8,556)
Support services:					
Pupil	362,249	-	6,902	-	(355,347)
Instructional staff	785,768	-	317,012	-	(468,756)
Board of Education	77,503	-	-	-	(77,503)
Administration	811,627	-	14,488	-	(797,139)
Fiscal	266,024	-	2,794	-	(263,230)
Business	6,865	-	-	-	(6,865)
Operation and maintenance of plant	1,319,977	-	103,478	-	(1,216,499)
Pupil transportation	23,735	-	-	-	(23,735)
Central	106,380	-	14,072	-	(92,308)
Non-instructional services:					
Extracurricular activities	288,467	41,757	-	-	(246,710)
Community service	123,477	138,204	2,421	-	17,148
Food service	228,806	49,048	194,743	-	14,985
Debt service:					
Principal retirement	350,000	-	-	-	(350,000)
Interest on long-term debt	41,240	-	-	-	(41,240)
Payment to refunded bond escrow agent	1,481,853	-	-	-	(1,481,853)
Issuance costs	26,339	-	-	-	(26,339)
	<u>\$ 11,224,740</u>	<u>1,049,916</u>	<u>1,328,770</u>	<u>5,145</u>	<u>(8,840,909)</u>
General Receipts:					
Property taxes, levied for general purposes					2,539,716
Property taxes, levied for debt services					279,053
Grants and entitlements not restricted to specific programs					3,978,919
Premium on issuance of bonds					13,192
Proceeds from sale of bonds					995,000
Investment earnings					34,406
Miscellaneous					<u>207,157</u>
Total general receipts					<u>8,047,443</u>
Change in net assets					(793,466)
Net assets beginning of year					<u>4,366,403</u>
Net assets end of year					<u>\$ 3,572,937</u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets and Fund Balances - Modified Cash Basis

Governmental Funds

June 30, 2010

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 2,245,154	323,743	199,935	2,768,832
Restricted cash	804,105	-	-	804,105
Total assets	<u>3,049,259</u>	<u>323,743</u>	<u>199,935</u>	<u>3,572,937</u>
Fund Balances:				
Reserved for:				
Encumbrances	67,954	-	71,472	139,426
Textbooks	605,120	-	-	605,120
Capital improvements	198,985	-	-	198,985
Unreserved, reported in:				
Designated, reported in budget stabilization	120,509	-	-	120,509
Undesignated, reported in:				
General fund	2,056,691	-	-	2,056,691
Special revenue funds	-	-	122,430	122,430
Debt service fund	-	323,743	-	323,743
Capital project funds	-	-	6,033	6,033
Total fund balances	<u>3,049,259</u>	<u>323,743</u>	<u>199,935</u>	<u>3,572,937</u>
Total liabilities and fund balances	\$ <u>3,049,259</u>	<u>323,743</u>	<u>199,935</u>	<u>3,572,937</u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Cash Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis
 Governmental Funds
 Year Ended June 30, 2010

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts				
Property taxes	\$ 2,539,716	279,053	-	2,818,769
Tuition and fees	820,907	-	-	820,907
Interest	34,335	-	71	34,406
Charges for services	-	-	229,009	229,009
Intergovernmental	3,798,460	180,459	1,333,915	5,312,834
Miscellaneous	176,655	4,085	26,417	207,157
Total receipts	<u>7,370,073</u>	<u>463,597</u>	<u>1,589,412</u>	<u>9,423,082</u>
Disbursements				
Current:				
Instruction:				
Regular	3,697,379	-	290,336	3,987,715
Special education	414,932	-	509,687	924,619
Vocational	3,540	-	-	3,540
Other	8,556	-	-	8,556
Support services:				
Pupil	356,315	-	5,934	362,249
Instructional staff	346,419	-	439,349	785,768
Board of Education	77,503	-	-	77,503
Administration	794,127	-	17,500	811,627
Fiscal	257,880	5,404	2,740	266,024
Business	6,865	-	-	6,865
Operation and maintenance of plant	1,208,261	-	111,716	1,319,977
Pupil transportation	23,559	-	176	23,735
Central	92,578	-	13,802	106,380
Non-instructional services:				
Extracurricular activities	163,980	-	124,487	288,467
Community service	-	-	123,477	123,477
Food service	-	-	228,806	228,806
Debt Service:				
Principal	-	350,000	-	350,000
Interest and fiscal charges	-	41,240	-	41,240
Issuance costs	-	26,339	-	26,339
Total disbursements	<u>7,451,894</u>	<u>422,983</u>	<u>1,868,010</u>	<u>9,742,887</u>
Excess of receipts over (under) disbursements	<u>(81,821)</u>	<u>40,614</u>	<u>(278,598)</u>	<u>(319,805)</u>
Other financing sources (uses):				
Premium on sale of bonds	-	13,192	-	13,192
Proceeds from sale of bonds	-	995,000	-	995,000
Advances in	-	-	38,054	38,054
Advances out	(38,054)	-	-	(38,054)
Transfers in	34,415	-	71,287	105,702
Transfers out	(71,287)	-	(34,415)	(105,702)
Payment to refunded bond escrow agent	-	(1,481,853)	-	(1,481,853)
Total other financing sources (uses)	<u>(74,926)</u>	<u>(473,661)</u>	<u>74,926</u>	<u>(473,661)</u>
Net change in fund balance	(156,747)	(433,047)	(203,672)	(793,466)
Fund balance, beginning of year	3,206,006	756,790	403,607	4,366,403
Fund balance, end of year	<u>\$ 3,049,259</u>	<u>323,743</u>	<u>199,935</u>	<u>3,572,937</u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Fiduciary Net Assets - Modified Cash Basis

Fiduciary Funds

June 30, 2010

		<u>Agency Funds</u>
ASSETS		
Equity in pooled cash and investments	\$	<u>24,197</u>
Total assets		<u><u>24,197</u></u>
 NET ASSETS		
Held for students	\$	<u>24,197</u>
Total net assets		<u><u>24,197</u></u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lockland Local School District, Ohio (the "District") have been prepared on a modified cash basis. The more significant of the District's accounting policies are described below:

A. The Reporting Entity

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities. 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. There are no component units of the District.

The District is associated with two organizations that are defined as jointly governed organizations. These organizations are described below.

Great Oaks Institute of Technology and Career Development - The vocational school is a separate body politic and corporate established by the Ohio Revised Code to provide vocational and special education needs of the students. Great Oaks accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District. To obtain financial information, write to Great Oaks at 3254 E Kemper Rd. Cincinnati, OH 45241.

Public Entity Risk Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The plan's business and affairs are conducted by a three-member board of directors consisting of the president, the president-elect, and the immediate past president of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the plan. Each year, the participating school districts pay an enrollment fee to the plan to cover the costs of administering the program.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

B. Basis of Presentation

The District uses the provisions of GASB 34 for financial reporting on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements providing more detailed financial information.

Government-Wide Financial Statements: The statement of net assets and statement of activities display information about the District as a whole, except for fiduciary funds. These statements report governmental activities.

The statement of net assets presents the cash and investment balances of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function 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 District is responsible. Program receipts include charges paid by the recipient of the goods or services and grants and contributions restricted to meeting the operational requirements of 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 the cash basis or draws from the District's general receipts.

Fund Financial Statements: During the 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 report more detailed information about the District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as fund balance. The following are the District's major governmental funds:

General Fund - This fund is the general 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 fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Debt Service Fund - This fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The District's only fiduciary funds are agency funds:

Agency Funds - These funds are used to account for assets held by the District as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have a measurement focus. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's agency funds are used to account for student managed activities.

D. Basis of Accounting

Although required by the Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

As a result of the use of the 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 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2010 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Hamilton County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year as reported by the Treasurer.

The Certificate may be further amended during the year for projected increases or if the Treasurer identifies decreases in revenue. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2010.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations that reallocated, increased, or decreased the original appropriated amounts. The Board legally enacted several supplemental appropriations during fiscal year 2010.
9. Unencumbered appropriations lapse at year-end. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level. Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a cash basis, but are not included as part of cash disbursements, and are recorded as the equivalent of expenditures on a budgetary basis in order to demonstrate legal compliance. The required supplementary information found after the notes to the financial statements provides a reconciliation of the budgetary and cash basis of accounting.

F. Equity in Pooled Cash and Investments

Cash and investments consist of the total of the total of fund cash balances of all funds as of June 30, 2010. To improve cash management, cash received by the District is pooled. Monies for all funds 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" in the financial statements.

During fiscal 2010, investments were limited to certificates of deposit and the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2010.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2010 amounted to \$34,335 in the General Fund and \$71 in other governmental funds.

An analysis of the Treasurer's investment account at year-end is provided in Note 2.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

Restricted cash is reported for the amounts the District is required to set-aside for textbooks and capital improvements.

G. Inventory

On the modified cash basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased and are not recorded as assets in the basic financial statements.

H. Capital Assets and Depreciation

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The basic financial statements do not report these assets or the related depreciation.

I. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

J. Long-Term Debt

These modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments. Additional information regarding debt can be found in Note 5.

K. Fund Balances

The District reserves those portions of fund balances legally segregated for a specific future use or which are not available for appropriation or disbursement. The District has reserved fund balances for encumbrances, capital acquisitions and textbooks.

L. Net Assets

Net assets represent the difference between assets and liabilities. On the modified cash basis of accounting, net assets equal assets since liabilities are not recorded. The statements report restricted net assets when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use. Restricted for Other Purposes is comprised of net assets restricted for grants and scholarships. The District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

M. Interfund Transactions

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when paid or repaid. Note 3 lists both operating transfers and advances made during fiscal year 2010. Both inter-fund transfers and advances are eliminated in the statement of activities.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two 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.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments, in stripped principal or interest obligation, 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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

A. Deposits

At fiscal year end, the carrying amount of the District's deposits was \$3,143,581 and the bank balance was \$3,239,038. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance was subject to custodial credit risk as it was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

At June 30, 2010, the District's investment balance was as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Category</u>	<u>Maturity</u>	<u>Investment Concentration</u>	<u>Fair Value</u>
STAROhio	AAAm	Unclassified	N/A	100%	\$453,553

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's rated the District's STAROhio investment as AAAm. The Board has no policy on credit risk.

Custodial 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 State Treasurer's pool (STAR Ohio) is not categorized because it is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio are backed by the securities purchased by STAR Ohio. Historically, over 90% of investments purchased by STAR Ohio are United States Government obligations and securities purchased and held in a third party custodial arrangement on behalf of STAR Ohio. The District's investment policy does not address custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Education's formal investment policy states that "Investments held by the Treasurer must mature within five (5) years, unless they are matched to a specific obligation or debt of the District." This policy is intended to mitigate interest rate risk. STAR Ohio maturity dates are varied and short and are not subject to interest rate risk.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

NOTE 3 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's transfers for fiscal year 2010:

Fund	Transfers In	Transfers Out
General Fund	\$ 34,415	\$ 71,287
Other Governmental Funds:		
Athletic Fund	57,300	-
School Net Data	4,435	-
Reading First	9,552	-
Daycare and Latchkey	-	34,415
Total Other Governmental Funds	71,287	34,415
Total	\$ 105,702	\$ 105,702

The transfers from the General Fund are to various non-major special revenue funds to subsidize those funds.

The Daycare and Latchkey Special Revenue Fund transfer to the General Fund was for the balance left in the latchkey program that was discontinued by the District.

The following is a reconciliation of the District's advances for fiscal year 2010:

Fund	Advances In	Advances Out
General Fund	\$ -	\$ 38,054
Other Governmental Funds		
Title II-D Technology	1,365	-
Drug Free	1,108	-
Preschool	308	-
Reading First	4,266	-
Miscellaneous Federal Grants	31,007	-
Total Other Governmental Funds	38,054	-
Total	\$ 38,054	\$ 38,054

The General Fund provides advances to the various non-major Special Revenue Funds as cash is required and these funds repay such advances as cash is available.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

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 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 (used in business) located in the District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of the prior January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at 35 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 year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in calendar year 2010 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The assessed values upon which fiscal year 2010 taxes were collected are as follows:

	2009 Second-Half Collections		2010 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 69,439,000	85.68%	\$ 68,227,000	92.61%
Public Utility Personal	4,773,000	5.89%	5,055,000	6.86%
Tangible Personal Property	6,829,000	8.43%	391,000	0.53%
Totals	<u>\$ 81,041,000</u>	<u>100.00%</u>	<u>\$ 73,673,000</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$51.50		\$50.79

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

NOTE 5 - LONG-TERM DEBT

A. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 330,000	\$ 17,850	\$ 347,850
2012	235,000	16,675	251,675
2013	225,000	13,250	238,250
2014	215,000	8,850	223,850
2015	200,000	4,700	204,700
2016	120,000	1,350	121,350
Total	<u>\$ 1,325,000</u>	<u>\$ 62,675</u>	<u>\$ 1,387,675</u>

The above amortization schedule includes \$20,787 of accretion on capital appreciation bonds that has not been recognized as of June 30, 2010.

B. Changes in Long Term Debt

During the year ended June 30, 2010, the following were the changes in long-term obligations.

	Principal Outstanding 7/1/09	Additions	Reductions	Refunded	Principal Outstanding 6/30/10	Amounts Due in One Year
<i>Governmental Activities:</i>						
<i>General Obligation Bonds:</i>						
Series 2000, Current Interest Refunding Bonds, 5.537%, 12/1/15 maturity	\$ 1,430,000	-	-	(1,430,000)	-	-
Series 2000, Capital Appreciation Refunding Bonds, 12/1/10 maturity	599,440	59,773	(350,000)	-	309,213	330,000
Series 2010, School Improvement Current Refunding Bonds, 1%-2.5%, 12/1/15 maturity	-	995,000	-	-	995,000	-
Total	<u>\$ 2,029,440</u>	<u>1,054,773</u>	<u>(350,000)</u>	<u>(1,430,000)</u>	<u>1,304,213</u>	<u>330,000</u>

On March 24, 2010, the District issued \$995,000 in Series 2010 School Improvement Current Refunding Bonds to refund the Series 2000 Current Interest Refunding Bonds. The refunding resulted in an economic gain of \$125,427 and a cashflow savings of \$120,929. The bonds will be retired from the debt service fund.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school district should never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The District's voted legal debt margin was \$5,326,357 with an unvoted debt margin of \$73,673 at June 30, 2010.

NOTE 6 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2010, the District purchased from Indiana Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded these coverage's in any of the past three fiscal years. There has been no significant change in coverage from last year.

OSBA Worker's Compensation Group Rating

For fiscal year 2010, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 1.A.). 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 ensures 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

A. School Employees Retirement System

The District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Board Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's required contributions to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$158,000, \$173,000, and \$161,000 respectively; all of which has been contributed for all three years.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3771 or by calling 1-888-227-7877.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

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

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and contributions actually made for the fiscal year ended June 30, 2010, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS Ohio for the years ended June 30, 2010, 2009, and 2008 were \$513,000, \$493,000, and \$505,000, respectively; all of which has been contributed for all three years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS Ohio have an option to choose Social Security or SERS. The District's liability is 6.2% of wages paid.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

A. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2010, 2009, and 2008. The 14% employer contribution rate is the maximum rate established under Ohio law. The District's contributions to STRS Ohio allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008 were \$37,000, \$35,000, and \$39,000, respectively.

B. School Employees Retirement System

SERS administers two postemployment benefit plans:

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76%. The District's required contribution for the year ended June 30, 2010, 2009, and 2008 were \$9,000, \$9,000, and \$7,600, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2010, the health care allocation was 0.46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions for the years ended June 30, 2010, 2009, and 2008 were \$5,000, \$51,000, and \$48,000, respectively.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

NOTE 9 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on the basic financial statements of the District at June 30, 2010.

B. Litigation

The District is party to legal proceedings. 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.

NOTE 10 – REQUIRED SET-ASIDES

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

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside reserve balance as of June 30, 2009	\$	624,323	247,106
Current year set-aside requirement		105,583	105,583
Current year qualifying disbursements		<u>(124,786)</u>	<u>(153,704)</u>
Total		<u>605,120</u>	<u>198,985</u>
Balance carried forward to FY2011		<u>605,120</u>	<u>198,985</u>
Set-aside reserve balance as of June 30, 2010	\$	<u>605,120</u>	<u>198,985</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2010

NOTE 11 – COMPLIANCE

A. GAAP Reporting

Contrary to the Ohio Revised Code § 117.38 and Ohio Administrative Code §117-03(B), the District does not prepare its financial statements in accordance with accounting principles generally accepted in the United States of America.

B. Fund Deficits

At June 30, 2010, the following funds had a deficit balance:

Title VI-B	\$	318
Title I School Improvement		240
Title I - Sub G		3,750
Miscellaneous Federal Grants		66,708

These deficits are the result of grant fund expenditures that will be reimbursed in the next fiscal year.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Required Supplemental Information
 Schedule of Receipts, Disbursements and Changes in Fund
 Balance - Budget and Actual (Budgetary Basis)
 General Fund
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget
Receipts				
Property taxes	\$ 2,538,129	2,539,904	2,539,716	(188)
Tuition and fees	817,389	820,907	820,907	-
Interest	34,335	34,335	34,335	-
Intergovernmental	3,186,154	3,883,918	3,798,460	(85,458)
Miscellaneous	106,655	176,655	176,655	-
Total receipts	<u>6,682,662</u>	<u>7,455,719</u>	<u>7,370,073</u>	<u>(85,646)</u>
Disbursements				
Current:				
Instruction:				
Regular	3,547,618	3,547,618	3,705,341	(157,723)
Special education	609,686	609,686	442,947	166,739
Vocational	42,618	42,618	3,540	39,078
Other instruction	26,079	26,079	8,556	17,523
Support services:				
Pupil	337,482	337,482	358,365	(20,883)
Instructional staff	410,325	410,325	353,592	56,733
Board of Education	117,998	117,998	80,480	37,518
Administration	905,745	905,745	797,242	108,503
Fiscal	297,777	297,777	260,380	37,397
Business	5,031	5,031	6,865	(1,834)
Operation and maintenance of plant	1,186,986	1,186,986	1,219,948	(32,962)
Pupil transportation	14,675	14,675	26,034	(11,359)
Central	129,217	129,217	92,578	36,639
Non-instructional services:				
Extracurricular activities	161,154	161,154	163,980	(2,826)
Total disbursements	<u>7,792,391</u>	<u>7,792,391</u>	<u>7,519,848</u>	<u>272,543</u>
Excess of receipts over (under) disbursements	(1,109,729)	(336,672)	(149,775)	186,897
Other financing sources (uses):				
Advances out	(50,000)	(50,000)	(38,054)	11,946
Transfers in	34,415	34,415	34,415	-
Transfers out	(127,000)	(127,000)	(71,287)	55,713
Total other financing sources (uses)	<u>(142,585)</u>	<u>(142,585)</u>	<u>(74,926)</u>	<u>67,659</u>
Net change in fund balance	(1,252,314)	(479,257)	(224,701)	254,556
Fund balance, beginning of year	3,052,051	3,052,051	3,052,051	
Prior year encumbrances appropriated	153,955	153,955	153,955	
Fund balance, end of year	\$ <u>1,953,692</u>	<u>2,726,749</u>	<u>2,981,305</u>	

See accompanying notes to the required supplementary information.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Required Supplementary Information

Year Ended June 30, 2010

Note A Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the modified cash basis of accounting, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual (Budgetary Basis) 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 cash basis are that:

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The following tables summarize the adjustments necessary to reconcile the cash basis statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - Cash Basis	\$ (156,747)
Increase / (decrease):	
Due to encumbrances	<u>(67,954)</u>
Net change in fund balance - Budget Basis	\$ <u>(224,701)</u>

Lockland Local School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Receipts	Federal Expenditures
U.S. Department of Agriculture:				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution)</i>				
National School Lunch Program	N/A	10.555	\$ 10,848	10,848
<i>Cash Assistance</i>				
School Breakfast Program	05PU	10.553	26,503	26,503
National School Lunch Program	LLP4	10.555	163,101	163,101
Nutrition Cluster Total			<u>200,452</u>	<u>200,452</u>
Team Nutrition	2010	10.574	2,000	1,418
Total U.S. Department of Agriculture			<u>202,452</u>	<u>201,870</u>
U.S. Department of Education:				
Safe and Drug-Free Schools and Communities - National Programs				
<i>(Passed through Ohio Department of Education)</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	C1S1 - 2009	84.010	3,263	73,144
Title I Grants to Local Educational Agencies	C1S1 - 2010	84.010	288,761	280,262
ARRA-Title I Grants to Local Educational Agencies	ARRA - 2010	84.389	137,061	135,547
Title I, Part A Cluster Total			<u>429,085</u>	<u>488,953</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF - 2009	84.027	17,941	23,726
Special Education - Grants to States	6BSF - 2010	84.027	135,474	136,638
ARRA-Special Education - Grants to States	ARRA - 2010	84.391	133,603	132,752
Special Education - Preschool Grants	PGS1 - 2010	84.173	2,065	2,040
ARRA-Special Education - Preschool Grants	ARRA - 2010	84.392	5,263	5,595
Special Education Cluster Total			<u>294,346</u>	<u>300,751</u>
Safe and Drug-Free Schools and Communities - State Grants				
	DRS1 - 2010	84.186	1,406	2,557
Education Technology State Grants				
	TJS1 - 2009	84.318	2,250	2,521
	TJS1 - 2010	84.318	3,068	4,433
			<u>5,318</u>	<u>6,954</u>
Reading First State Grants				
	RSS1 - 2009	84.357	24,517	50,794
	RSS1 - 2010	84.357	154,305	238,779
			<u>178,822</u>	<u>289,573</u>
Improving Teacher Quality State Grants				
	TRS1 - 2009	84.367	6,139	7,240
	TRS1 - 2010	84.367	44,137	43,740
			<u>50,276</u>	<u>50,980</u>
School Improvement Grants				
	C1SK-2010	84.377	-	3,750
ARRA-State Fiscal Stabilization Fund - Education State Grants				
	ARRA-2010	84.394	121,162	118,838
<i>(Passed Through Hamilton County Educational Service Center)</i>				
English Language Acquisition Grants	2009	84.365	3,623	6,238
<i>(Passed Through Great Oaks Institute of Technology and Career Development)</i>				
Vocational Education - Basic Grants to States	2010	84.048	1,902	1,738
Total U.S. Department of Education			<u>1,085,940</u>	<u>1,291,939</u>
Corporation for National and Community Service				
<i>(Passed through Ohio Department of Education)</i>				
Learn & Serve America	2010	94.004	2,273	2,073
U.S. Department of Transportation				
<i>(Passed through Ohio Department of Education)</i>				
ARRA-Highway Planning and Construction	ARRA-2010	20.205	990	1,004
Total Federal Financial Assistance			<u>\$ 1,291,655</u>	<u>1,496,886</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C - NUTRITION CLUSTER

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Lockland Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lockland Local School District (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 13, 2011, wherein we noted that the School District has prepared its financial statements using a modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

160 north breiel blvd.
middletown, oh 45042

37 www.cshco.com
p. 513.424.5000
f. 513.422.7882

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of the School District, in a separate letter dated January 13, 2011.

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

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



Middletown, Ohio
January 13, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Lockland Local School District:

Compliance

We have audited the Lockland Local School District's (the School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2010. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, Lockland Local School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-2.

160 north breiel blvd.
middletown, oh 45042

39
www.cshco.com
p. 513.424.5000
f. 513.422.7882

Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

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

Clark, Schaefer, Hatchett & Co.

Middletown, Ohio
January 13, 2011

LOCKLAND LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	none
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	yes

Type of auditors' report issued on compliance for major programs:	unqualified
---	-------------

Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	yes
---	-----

Identification of major programs:

Title I, Part A Cluster:

- CFDA 84.010 – Title I Grants to Local Educational Agencies*
- CFDA 84.389 – ARRA-Title I Grants to Local Educational Agencies*

Special Education Cluster:

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

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
---	-----------

Auditee qualified as low-risk auditee?	no
--	----

Section II - Financial Statement Findings

Finding 2010-1 – GAAP-Basis Financial Reports

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with the modified cash basis of accounting. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Management's Response: It is not cost effective for the School District to prepare GAAP statements at this time due to tight budget considerations and lack of staffing.

Section III - Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF EDUCATION

Finding 2010-2 – Title I, Part A Cluster - CFDA Nos. 84.010 and 84.389

Condition: We performed tests to determine if the School District was meeting the required set-asides for supplemental education services. We noted that the School District was required to spend \$61,739, but the School District could only demonstrate that they spent \$37,188. The School District failed to notify the Ohio Department of Education (ODE) of its intent to spend the remainder on other allowable activities, since the School District did not spend the minimum requirement during the school year.

Criteria: According to the U.S. Department of Education's guidance on Title I Earmarking, Local Education Agencies (LEA) must spend amount equal to at least 20 percent of its allocation to provide supplemental education services. An LEA that does not meet its 20 percent obligation in a given school year must notify the State Education Agency (SEA) that it has met the criteria listed above and intends to spend the remainder of its 20 percent obligation on other allowable activities, specifying the amount of that remainder. The LEA must maintain records that demonstrate it has met these criteria. If an SEA determines, through monitoring, that an LEA has failed to meet any of the criteria listed above, the LEA must spend an amount equal to the remainder of its 20 percent obligation in the subsequent school year, in addition to its 20 percent obligation for that year, on choice-related transportation costs, supplemental educational services, or parent outreach and assistance, or meet the criteria listed above and obtain permission from the SEA before spending less in the subsequent school year (34 CFR section 200.48(d)).

Effect: Failure to meet the set-aside requirements could result in future funding cuts for the School District's federal programs.

Cause: The School District lacked procedures to ensure that when the set-aside requirements could not be met, they notified ODE.

Recommendation: We recommend the School District implement procedures to ensure that ODE is notified when the minimum set-aside requirements are not met.

Management's Response: Because district/buildings can move in and out of school improvement status, the special rules regarding set asides are not well known nor are they well documented in the document library of the state education department. Lockland was in school improvement status in FY2010 but is not in school improvement status in FY2011. The district is now aware of the set aside rules and, in the event that the district is bound by set aside requirements in the future, it will closely monitor the expenditures and notify the state department in a timely manner of set aside expenditures falling short of required levels.

LOCKLAND LOCAL SCHOOL DISTRICT
Schedule of Prior Audit Findings
Year Ended June 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Current Status
2009-1	The School District has experienced a number of challenges during fiscal years 2004, 2005, 2006, 2007, 2008 and 2009 with some major accounting and reporting issues as evidenced by the number of findings documented in this schedule and a separately issued management letter. Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. The previously mentioned findings indicate a general lack of controls over the financial accounting processes and record keeping within the School District which need to be addressed promptly.	Yes	
2009-2	Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with the modified cash basis of accounting. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.	No	Repeated as current year finding 2010-1
2009-3	The Federal Audit Clearinghouse requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. During the current year audit, it was noted that the data collection form for fiscal years ended June 30, 2008 and 2009 were not submitted until after the required due date and the School District did not obtain an extension of time to file from the cognizant or oversight agency	Yes	

<p>2009-4</p>	<p>In accordance with the U.S. Office of Management and Budget Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>, management is responsible for identifying all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The School District's schedule of expenditure of federal awards was not complete as program expenditures were not accurate for some of the programs and omitted a few programs. The expenditures were corrected and the omitted programs were added. In addition to our opinions on the School District's financial statements, we are also required to express an "in relation to" opinion on the schedule of expenditures of federal awards. We were only able to express an unqualified opinion after correcting the School District's schedule of expenditures of federal awards. We recommend the School District review fiscal year activity to ensure that all federal programs have been accounted for accurately and completely on the schedule.</p>	<p>Yes</p>	
<p>2009-5</p>	<p>We performed tests to determine if the School District was properly preparing semi-annual certifications for employees that work solely on a specific federal programs to support salaries and wages. We noted these certifications were prepared on an annual basis by the School District rather than semi-annually</p>	<p>Yes</p>	



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training and experience are well-suited for each client's purpose and goals. We are committed to providing insightful and customized service — from efficient compliance to sophisticated consulting — to help each client prosper today and plan for future success.

cincinnati | columbus | dayton | middletown | springfield

www.cshco.com



Dave Yost • Auditor of State

LOCKLAND LOCAL SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 24, 2011