



Lockland Local School District

Basic Financial Statements
Year Ended June 30, 2011
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, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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 22, 2012

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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, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 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, 2011, 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.

As described in Note 2, during the year ended June 30, 2011, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 35 through 36 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, 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
December 29, 2011

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Lockland Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- For governmental activities, net assets decreased \$716,001, which represents a 20 percent decrease from 2010.
- General receipts accounted for \$6 million or 70 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, and operating and capital grants and contributions accounted for \$2.6 million or 30 percent of total governmental receipts of \$8.6 million.
- The School District had \$9.3 million in disbursements related to governmental activities; only \$2.6 million of these disbursements were offset by program specific charges for services and sales, and operating capital grants and contributions. General receipts (primarily taxes and unrestricted grants and entitlements) of \$6 million provided resources for these programs but did not cover the full costs resulting in a decrease of \$716,001 in net assets.
- The School District's major funds were the general fund and debt service fund. All governmental funds had total receipts of \$8.6 million and disbursements of \$9.3 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's balance decreased by \$847,995 due to the School District's decrease in revenues and increases in other financing uses.

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 School 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 School District as a whole. Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the School 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, 2011
Unaudited*

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School 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 School 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 School District as a Whole

The Statement of Net Assets and the Statement of Activities reflect how the School District performed financially during 2011, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental activities of the School 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 School District's general receipts.

These statements report the School 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 School District's financial condition. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial condition is improving or deteriorating. When evaluating the School District's financial condition, the reader should also consider other nonfinancial factors as well, such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School 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 School District's programs and services are reported as Governmental Activities.

Reporting the School District's Most Significant Funds

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

Governmental funds. All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 School 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, 2011

Unaudited

Fiduciary Funds. The School District only has an agency fund. All of the School District's fiduciary activity is reported in a separate Statement of Fiduciary Net Asset – Modified Cash Basis. We excluded these activities from the School District's other financial statements because the School 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 School District's net assets at June 30, 2011 and 2010:

	2011 Governmental Activities	2010 Governmental Activities
Assets:		
Cash and Investments	<u>\$2,856,936</u>	<u>\$3,572,937</u>
<i>Total Assets</i>	<u><u>\$2,856,936</u></u>	<u><u>\$3,572,937</u></u>
Net Assets:		
Restricted	\$1,419,231	\$1,185,637
Unrestricted	<u>1,437,705</u>	<u>2,387,300</u>
<i>Total Net Assets</i>	<u><u>\$2,856,936</u></u>	<u><u>\$3,572,937</u></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 (\$1,437,705) may be used to meet the government's ongoing obligations to citizens and creditors.

The decrease in cash is largely a result of an 18 percent decrease in revenues. The majority of this decrease is related to bond proceeds received last fiscal year and not in fiscal year 2011. Other decreases in receipts were a result of lower property taxes collections and state foundation with lower property valuations.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
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The table below shows the net changes in net assets for fiscal year 2011 compared to 2010.

	2011 Governmental Activities	2010 Governmental Activities	Increase (Decrease)
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$ 839,629	\$ 1,049,916	\$ (210,287)
Operating Grants and Contributions	1,710,838	1,328,770	382,068
Capital Grants and Contributions	9,100	5,145	3,955
Total Program Receipts	2,559,567	2,383,831	175,736
General Receipts:			
Property Taxes	2,464,385	2,818,769	(354,384)
Grants and Entitlements	3,437,708	3,978,919	(541,211)
Premium on Issuance of Bonds	-	13,192	(13,192)
Proceeds from Sale of Bonds	-	995,000	(995,000)
Investment Earnings	7,101	34,406	(27,305)
Miscellaneous	81,948	207,157	(125,209)
Total General Receipts	5,991,142	8,047,443	(2,056,301)
Total Receipts	8,550,709	10,431,274	(1,880,565)
Disbursements:			
Instruction:			
Regular	3,794,922	3,987,715	(192,793)
Special	902,477	924,619	(22,142)
Vocational	-	3,540	(3,540)
Other Instruction	56,272	8,556	47,716
Support Services:			
Pupils	294,010	362,249	(68,239)
Instructional Staff	785,329	785,768	(439)
Board of Education	72,947	77,503	(4,556)
Administration	800,309	811,627	(11,318)
Fiscal	338,889	266,024	72,865
Business	4,545	6,865	(2,320)
Operation and Maintenance of Plant	1,119,863	1,319,977	(200,114)
Pupil Transportation	29,035	23,735	5,300
Central	122,113	106,380	15,733
Non-instructional services:			
Extracurricular Activities	264,307	288,467	(24,160)
Community Services	71,156	123,477	(52,321)
Food Service	262,686	228,806	33,880
Debt Service:			
Principal Retirement	330,000	350,000	(20,000)
Interest on Long-Term Debt	17,850	41,240	(23,390)
Payment to refunded bond escrow agent	-	1,481,853	(1,481,853)
Issuance costs	-	26,339	(26,339)
Total Disbursements	9,266,710	11,224,740	(1,958,030)
Changes in Net Assets	(716,001)	(793,466)	77,465
Beginning Net Assets	3,572,937	4,366,403	
Ending Net Assets	\$ 2,856,936	\$ 3,572,937	

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*Management's Discussion and Analysis
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Unaudited*

Of the total governmental activities receipts of \$8,550,709, \$2,559,567 (30%) 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, 41% (\$2,464,385) comes from property tax levies and 57% (3,437,708) is from state funding. The School District's operations are reliant upon its property tax levy and state's foundation program.

Governmental Activities

The School District's governmental activities net assets decreased by \$716,001. Decreases in receipts are primarily a result of decreased state monies from school foundation and property taxes. Disbursements decreased as well, but not enough to generate a positive cash flow.

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. \$2,559,567 of the cost of the general government programs was recouped in program receipts. Instruction costs were \$4,753,671, but program receipts contributed to fund 33% of these costs. Thus, general receipts of \$3,183,874 were used to support the remainder of the instruction costs.

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$4,753,671	\$3,183,874	\$4,924,430	\$3,425,518
Support Services:				
Pupils and Instructional Staff	1,079,339	641,761	1,148,017	824,103
Board of Education, Administration, Fiscal and Business	1,216,690	1,195,898	1,162,019	1,144,737
Operation and Maintenance of Plant	1,119,863	930,845	1,319,977	1,216,499
Pupil Transportation	29,035	29,035	23,735	23,735
Central	122,113	108,520	106,380	92,308
Non-instructional services:				
Extracurricular activities	264,307	241,719	288,467	246,710
Community services	71,156	34,346	123,477	(17,148)
Food Service	262,686	(6,705)	228,806	(14,985)
Debt Service:				
Principal retirement	330,000	330,000	350,000	350,000
Interest on long-term debt	17,850	17,850	41,240	41,240
Payment to refunded bond escrow agent	-	-	1,481,853	1,481,853
Issuance costs	-	-	26,339	26,339
Total Disbursements	<u>\$9,266,710</u>	<u>\$6,707,143</u>	<u>\$11,224,740</u>	<u>\$8,840,909</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
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FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of these funds comprise \$2,625,941 (92%) of the total \$2,856,936 governmental fund assets.

General Fund: Fund balance at June 30, 2011 was \$2,334,846, including \$775,559 of unassigned fund balance, which represents 11% of disbursements for fiscal year 2011. The primary reason for the decrease in fund balance of about \$848,000 was due to a significant reduction in anticipated receipts, especially property taxes. Further, reductions in operational expenditures were more than offset by a temporary increase in other financing uses.

Debt Service Fund: The fund balance at June 30, 2011 was \$291,095, which is restricted for future principal and interest payments on long-term debt. Current year change in fund balance was a decrease of \$32,648.

General Fund Budgeting Highlights

The School 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 2011, the School District amended its general fund budget. The School 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 \$6.4 million, a decrease from original estimates of \$6.7 million due to fewer property taxes and state receipts. Final budgeted disbursements and other financing uses were \$7.5 million, an increase from the original estimate of \$7.4 million to cover additional advances and transfers. Actual disbursements and other financing uses were \$7.4 million.

Capital Assets and Debt Administration

Capital Assets

The School 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 School 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.

At June 30, 2011, the School District had \$995,000 outstanding in School Improvement Refunding Bonds with \$235,000 due within one year. During the year the School District retired Capital Appreciation Refunding Bonds of \$330,000. See Note 6 to the basic financial statements for more information regarding debt obligations.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited*

Current Financial Related Activities

The School District had approximately \$1.4 million in unrestricted net assets on the modified cash basis as of June 30, 2011. As the preceding information shows, the School 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. After 2010, school districts continue to be reimbursed for the loss of tangible revenue if their reliance on the reimbursement exceeds 2% of other selected revenue. If the 2% reliance threshold is reached by 2013, the reimbursement is completely phased out. If the reliance exceeds 2% after 2013, the reimbursement is frozen until further action by the State legislature.

While the School District was successful in increasing its tax revenue base in 2003, 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 School 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 School District must seek additional tax revenues to continue current operations. However, the School 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..." which has yet to be done. Virtually no additional state revenue will be available to the School 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 School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School 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, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 1,959,805
Restricted cash	<u>897,131</u>
Total assets	<u>2,856,936</u>
Net Assets:	
Restricted for:	
Capital projects	14,183
Debt service	291,095
Set asides	897,131
Other purposes	216,822
Unrestricted	<u>1,437,705</u>
Total net assets	\$ <u><u>2,856,936</u></u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities - Modified Cash Basis

Year Ended June 30, 2011

	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	\$ 3,794,922	732,383	382,212	9,100	(2,671,227)
Special education	902,477	-	446,102	-	(456,375)
Other instruction	56,272	-	-	-	(56,272)
Support services:					
Pupil	294,010	-	2,202	-	(291,808)
Instructional staff	785,329	-	435,376	-	(349,953)
Board of Education	72,947	-	-	-	(72,947)
Administration	800,309	-	13,094	-	(787,215)
Fiscal	338,889	-	7,698	-	(331,191)
Business	4,545	-	-	-	(4,545)
Operation and maintenance of plant	1,119,863	-	189,018	-	(930,845)
Pupil transportation	29,035	-	-	-	(29,035)
Central	122,113	-	13,593	-	(108,520)
Non-instructional services:					
Extracurricular activities	264,307	22,588	-	-	(241,719)
Community service	71,156	36,810	-	-	(34,346)
Food service	262,686	47,848	221,543	-	6,705
Debt service:					
Principal retirement	330,000	-	-	-	(330,000)
Interest on long-term debt	17,850	-	-	-	(17,850)
	<u>\$ 9,266,710</u>	<u>839,629</u>	<u>1,710,838</u>	<u>9,100</u>	<u>(6,707,143)</u>
General Receipts:					
Property taxes, levied for general purposes					2,305,049
Property taxes, levied for debt service					159,336
Grants and entitlements not restricted to specific programs					3,437,708
Investment earnings					7,101
Miscellaneous					81,948
Total general receipts					<u>5,991,142</u>
Change in net assets					(716,001)
Net assets beginning of year					<u>3,572,937</u>
Net assets end of year					<u>\$ 2,856,936</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, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 1,437,715	291,095	230,995	1,959,805
Restricted cash	<u>897,131</u>	<u>-</u>	<u>-</u>	<u>897,131</u>
Total assets	<u><u>2,334,846</u></u>	<u><u>291,095</u></u>	<u><u>230,995</u></u>	<u><u>2,856,936</u></u>
Fund Balances:				
Restricted	897,131	291,095	231,005	1,419,231
Assigned	662,156	-	-	662,156
Unassigned	<u>775,559</u>	<u>-</u>	<u>(10)</u>	<u>775,549</u>
Total fund balances	<u><u>\$ 2,334,846</u></u>	<u><u>291,095</u></u>	<u><u>230,995</u></u>	<u><u>2,856,936</u></u>

See accompanying notes to the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis

Governmental Funds

Year Ended June 30, 2011

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts				
Property taxes	\$ 2,305,049	159,336	-	2,464,385
Tuition and fees	732,383	-	-	732,383
Interest	7,089	-	12	7,101
Charges for services	36,810	-	70,436	107,246
Intergovernmental	3,278,559	159,149	1,719,938	5,157,646
Miscellaneous	78,065	-	3,883	81,948
Total receipts	<u>6,437,955</u>	<u>318,485</u>	<u>1,794,269</u>	<u>8,550,709</u>
Disbursements				
Current:				
Instruction:				
Regular	3,393,805	-	401,117	3,794,922
Special education	401,201	-	501,276	902,477
Other	56,272	-	-	56,272
Support services:				
Pupil	287,084	-	6,926	294,010
Instructional staff	257,535	-	527,794	785,329
Board of Education	72,947	-	-	72,947
Administration	800,309	-	-	800,309
Fiscal	325,564	3,283	10,042	338,889
Business	4,545	-	-	4,545
Operation and maintenance of plant	928,257	-	191,606	1,119,863
Pupil transportation	29,035	-	-	29,035
Central	108,311	-	13,802	122,113
Non-instructional services:				
Extracurricular activities	61,877	-	202,430	264,307
Community service	69,258	-	1,898	71,156
Food service	-	-	262,686	262,686
Debt Service:				
Principal	-	330,000	-	330,000
Interest and fiscal charges	-	17,850	-	17,850
Total disbursements	<u>6,796,000</u>	<u>351,133</u>	<u>2,119,577</u>	<u>9,266,710</u>
Excess of receipts over (under) disbursements	<u>(358,045)</u>	<u>(32,648)</u>	<u>(325,308)</u>	<u>(716,001)</u>
Other financing sources (uses):				
Advances in	31,007	-	209,733	240,740
Advances out	(209,733)	-	(31,007)	(240,740)
Transfers in	-	-	311,224	311,224
Transfers out	(311,224)	-	-	(311,224)
Total other financing sources (uses)	<u>(489,950)</u>	<u>-</u>	<u>489,950</u>	<u>-</u>
Net change in fund balance	(847,995)	(32,648)	164,642	(716,001)
Fund balance, beginning of year, restated	3,182,841	323,743	66,353	3,572,937
Fund balance, end of year	\$ <u>2,334,846</u>	<u>291,095</u>	<u>230,995</u>	<u>2,856,936</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, 2011

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>14,108</u>
Total assets	<u>14,108</u>
NET ASSETS	
Held for students	<u>14,108</u>
Total net assets	\$ <u><u>14,108</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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lockland Local School District, Ohio (the "School District") have been prepared on a modified cash basis. The more significant of the School 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 School District. For the School District, this includes general operations, food service, and student related activities. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. There are no component units of the School District.

The School District is associated with one organization that is defined as jointly governed organization:

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 School District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the School District. To obtain financial information, write to Great Oaks at 3254 E Kemper Rd. Cincinnati, OH 45241.

B. Basis of Presentation

The School 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 School 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 School District as a whole, except for fiduciary funds. These statements report governmental activities.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

The statement of net assets presents the cash and investment balances of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function of the School 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 School 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 and capital 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 School District's general receipts.

Fund Financial Statements: During the year, the School District segregates transactions related to certain School 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 School 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 School 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.

Governmental Funds

Governmental funds are those through which most governmental functions of the School 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 following are the School District's major governmental funds:

General Fund - This fund is the general operating fund of the School 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 School 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 School District is obligated in some manner for the payment.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

The other governmental funds of the School 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 School District's only fiduciary funds are agency funds.

Agency Funds - These funds are used to account for assets held by the School 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 School 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 School 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.

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 2011 is as follows:

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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 School 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 2011.

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.
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 one supplemental appropriations measure during fiscal year 2011.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

9. Unencumbered appropriations lapse at year-end. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level. Encumbrance accounting is utilized with School 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 are not included as part of cash disbursements, but 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 modified 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, 2011. To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School 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 2011, 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, 2011.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2011 amounted to \$7,089 in the General Fund and \$12 in Other Governmental Funds.

Restricted cash is reported for the amounts the School District is required to set-aside for textbooks and capital improvements. An analysis of the Treasurer's investment account at year-end is provided in Note 3.

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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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 School 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 6.

K. Fund Balances

Fund balance is divided into four classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The School District did not report any committed fund balances at June 30, 2011.

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

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

The constraints placed on fund balance for the major and all other governmental funds at June 30, 2011 were:

<u>Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Restricted for:</i>				
Textbooks and Instructional Materials	\$ 645,846	-	-	645,846
Food Service Operations	-	-	65,894	65,894
State Grants	-	-	17,057	17,057
Federal Grants	-	-	97,297	97,297
Other Purposes	-	-	36,574	36,574
Debt Service Payments	-	291,095	-	291,095
Capital Improvements	251,285	-	14,183	265,468
<i>Total Restricted</i>	<u>897,131</u>	<u>291,095</u>	<u>231,005</u>	<u>1,419,231</u>
<i>Assigned to:</i>				
Encumbrances	115,339	-	-	115,339
Future Appropriations	526,668	-	-	526,668
Other Purposes	20,149	-	-	20,149
<i>Total Assigned</i>	<u>662,156</u>	<u>-</u>	<u>-</u>	<u>662,156</u>
<i>Unassigned (Deficit)</i>	<u>775,559</u>	<u>-</u>	<u>(10)</u>	<u>775,549</u>
<i>Total Fund Balance</i>	<u>\$ 2,334,846</u>	<u>291,095</u>	<u>230,995</u>	<u>2,856,936</u>

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

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 School 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, 2011

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. Both interfund transfers and advances are eliminated in the statement of activities.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clarifying fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s beginning fund balance:

	<u>General</u>	<u>Other Governmental funds</u>
Fund Balance at June 30, 2010	\$ 3,049,259	199,935
Change in fund classifications	<u>133,582</u>	<u>(133,582)</u>
Restated Fund Balance at June 30, 2010	\$ <u>3,182,841</u>	<u>66,353</u>

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the School 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 School 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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

Interim monies 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;
1. 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;
2. 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;
3. Bonds and other obligations of the State of Ohio;
4. 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 School District, and must be purchased with the expectation that it will be held to maturity.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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 School 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*.

A. Deposits

At fiscal year end, the carrying amount of the School District's deposits was \$2,417,016 and the bank balance was \$2,488,663. Of the bank balance, \$505,595 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 School 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 School District to a successful claim by the FDIC.

B. Investments

At June 30, 2011, the School District's investment balance was as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Investment Concentration</u>	<u>Fair Value</u>
STAROhio	AAAm	N/A	100%	\$454,028

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 School 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 School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

The School 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 School 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 School 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.

NOTE 4 - INTERFUND TRANSACTIONS

The General Fund provides advances to the Other Governmental Funds as cash is required and these funds repay such advances as cash is available. The transfers from the General Fund are to Other Governmental Funds to subsidize those funds. The following is a reconciliation of the School Districts advances and transfers for fiscal year 2011:

	<u>Advances</u>		<u>Transfers</u>	
	<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 31,007	209,733	-	311,224
Other Governmental Funds	<u>209,733</u>	<u>31,007</u>	<u>311,224</u>	<u>-</u>
Total	\$ <u>240,740</u>	<u>240,740</u>	<u>311,224</u>	<u>311,224</u>

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of the prior January 1, 2010, 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 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 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after April 1, 2010, on the value listed as of December 31, 2010. 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 School District prior to June 30. The assessed values upon which fiscal year 2011 taxes were collected are as follows:

		<u>2010 Second- Half Collections</u>		<u>2011 First- Half Collections</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$	68,227,000	92.61%	68,449,270	92.65%
Public Utility Personal		5,055,000	6.86%	5,189,930	7.03%
Tangible Personal Property		<u>391,000</u>	<u>0.53%</u>	<u>237,780</u>	<u>0.32%</u>
Total Assessed Value	\$	<u>73,673,000</u>	<u>100.00%</u>	<u>73,876,980</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation			\$50.79		\$48.59

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 6 - LONG-TERM DEBT

A. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	<u>120,000</u>	<u>1,350</u>	<u>121,350</u>
	<u>\$ 995,000</u>	<u>44,825</u>	<u>1,039,825</u>

B. Changes in Long Term Debt

During the year ended June 30, 2011, the following were the changes in long-term obligations.

	Principal Outstanding 7/1/10	Additions	Reductions	Principal Outstanding 6/30/11	Amounts Due in One Year
<i>Governmental Activities:</i>					
<i>General Obligation Bonds:</i>					
Series 2000, Capital Appreciation Refunding Bonds, 12/1/10 maturity	\$ 309,213	20,787	(330,000)	-	-
Series 2010, School Improvement Current Refunding Bonds, 1%-2.5%, 12/1/15 maturity	<u>995,000</u>	<u>-</u>	<u>-</u>	<u>995,000</u>	<u>235,000</u>
Total	<u>\$ 1,304,213</u>	<u>20,787</u>	<u>(330,000)</u>	<u>995,000</u>	<u>235,000</u>

The School District issued \$995,000 in Series 2010 School Improvement Current Refunding Bonds to refund the Series 2000 Capital Appreciation Refunding Bonds. The bonds will be retired from the Debt Service Fund.

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 School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the School District. The School District's voted legal debt margin was \$5,653,928 with an unvoted debt margin of \$73,877 at June 30, 2011.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

NOTE 7 - RISK MANAGEMENT

The School 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 2011, the School District purchased from the Ohio Casualty Insurance Company 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.

Cincinnati USA Regional Chamber Group Retrospective Rating Program

For fiscal year 2011, the School District participated in the Cincinnati USA Regional Group Retrospective Rating (GRR) program, an incentive based program to reduce overall costs. The intent of the GRR is to achieve the benefit of reduced premiums for the School District by virtue of its grouping and representation with other participants in the GRR.

Each participant pays its individual premium for the program year. The group's claims losses are evaluated at 12-, 24-, and 36-month intervals following the end of the group retro year. If the analysis results in a group retrospective premium calculation lower than the group's standard premium, participating members may be entitled to a refund.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS

A. School Employees Retirement System

The School 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% 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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$140,000, \$158,000, and \$173,000 respectively; all of which has been contributed for all three years.

B. State Teachers Retirement System

The School 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.

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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.

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.

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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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, 2011, were 10% of covered payroll for members and 14% for employers. The School District's contributions to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$491,000, \$513,000, and \$493,000, 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 School District's liability is 6.2% of wages paid.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

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.

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 fiscal years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contributions to STRS Ohio allocated to post-employment health care for the fiscal years ended June 30, 2011, 2010 and 2009 were approximately \$35,000, \$37,000, and \$35,000, respectively; all of which has been contributed for all three years.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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 2011 was \$96.40 for most participants, but could be as high as \$369.10 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 2011, the actuarially required allocation was 0.76%

The School District's required contribution for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$8,000, \$9,000, and \$9,000, 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, 2011, the health care allocation was 1.43%. 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 2011, 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 School District contributions for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$14,000, \$5,000, and \$51,000, respectively; all of which has been contributed for all three years.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2011

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 10 - CONTINGENCIES

A. Grants

The School 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 School District at June 30, 2011.

B. Litigation

The School District is party to legal proceedings. The School 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 School District.

NOTE 11 – REQUIRED SET-ASIDES

The School 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 balance as of June 30, 2010	\$	605,120	198,985
Current year set-aside requirement		98,065	98,065
Current year qualifying disbursements		<u>(57,339)</u>	<u>(45,765)</u>
Total		<u>645,846</u>	<u>251,285</u>
Set-aside balance as of June 30, 2011	\$	<u>645,846</u>	<u>251,285</u>

Effective on July 1, 2011, House Bill 30 repealed the State statute requiring school districts to annually set aside funds for acquisition of textbooks and instructional materials.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 12 – COMPLIANCE

A. GAAP Reporting

Contrary to the Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-03(B), the School 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, 2011, The Title VI-B fund had a deficit fund balance of \$10. The deficit is 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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Receipts				
Property taxes	\$ 2,468,894	2,305,049	2,305,049	-
Tuition and fees	833,569	732,383	732,383	-
Interest	8,068	7,089	7,089	-
Intergovernmental	3,305,746	3,278,559	3,278,559	-
Miscellaneous	73,118	60,478	67,078	6,600
Total receipts	<u>6,689,395</u>	<u>6,383,558</u>	<u>6,390,158</u>	<u>6,600</u>
Disbursements				
Current:				
Instruction:				
Regular	3,642,164	3,542,407	3,409,172	133,235
Special education	360,234	520,253	492,239	28,014
Vocational	4,129	-	-	-
Other instruction	9,154	56,272	56,272	-
Support services:				
Pupil	387,148	289,134	287,084	2,050
Instructional staff	341,684	264,708	257,535	7,173
Board of Education	78,947	75,924	72,947	2,977
Administration	780,755	803,796	800,681	3,115
Fiscal	322,223	328,439	325,939	2,500
Business	4,390	4,545	4,545	-
Operation and maintenance of plant	1,033,598	947,811	936,124	11,687
Pupil transportation	26,440	31,510	29,035	2,475
Central	91,870	108,311	108,311	-
Non-instructional services:				
Extracurricular activities	140,285	52,122	52,122	-
Total disbursements	<u>7,223,021</u>	<u>7,025,232</u>	<u>6,832,006</u>	<u>193,226</u>
Excess of receipts over (under) disbursements	(533,626)	(641,674)	(441,848)	199,826
Other financing sources (uses):				
Advances in	31,007	31,007	31,007	-
Advances out	(40,000)	(209,733)	(209,733)	-
Transfers out	(95,000)	(311,224)	(311,224)	-
Total other financing sources (uses)	<u>(103,993)</u>	<u>(489,950)</u>	<u>(489,950)</u>	<u>-</u>
Net change in fund balance	(637,619)	(1,131,624)	(931,798)	199,826
Fund balance, beginning of year	2,981,305	2,981,305	2,981,305	
Prior year encumbrances appropriated	67,954	67,954	67,954	
Fund balance, end of year	\$ <u>2,411,640</u>	<u>1,917,635</u>	<u>2,117,461</u>	

See accompanying notes to the required supplementary information.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Required Supplementary Information

Year Ended June 30, 2011

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 modified cash basis are that:

Encumbrances are treated as expenditures for all funds (budget basis) rather than as an assignment of fund balance for governmental fund types (modified cash basis).

Certain funds accounted for as separate funds internally with legally adopted budgets (budgetary basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (modified cash basis).

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	\$ (847,995)
Increase / (decrease):	
Due to encumbrances	(115,339)
GASB 54 fund classifications	<u>31,536</u>
Net change in fund balance - Budget Basis	\$ <u>(931,798)</u>

**Lockland Local School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<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	\$ 10,002	10,002
<i>Cash Assistance</i>				
School Breakfast Program	05PU	10.553	41,754	41,754
National School Lunch Program	LLP4	10.555	163,978	163,978
Nutrition Cluster Total			<u>215,734</u>	<u>215,734</u>
School Lunch Equipment	N/A	10.579	10,219	10,219
Team Nutrition	2010	10.574	-	582
Total U.S. Department of Agriculture			<u>225,953</u>	<u>226,535</u>
<u>U.S. Department of Education:</u>				
Safe and Drug-Free Schools and Communities - National Programs	n/a	84.184	93,830	70,634
<i>(Passed through Ohio Department of Education)</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	C1S1 - 2010	84.010	21,908	71,838
Title I Grants to Local Educational Agencies	C1S1 - 2011	84.010	418,781	428,759
ARRA-Title I Grants to Local Educational Agencies	ARRA - 2010	84.389	19,857	11,406
ARRA-Title I Grants to Local Educational Agencies	ARRA - 2011	84.389	20,230	18,532
Title I, Part A Cluster Total			<u>480,776</u>	<u>530,535</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF - 2010	84.027	5,729	24,465
Special Education - Grants to States	6BSF - 2011	84.027	183,404	215,640
ARRA-Special Education - Grants to States	ARRA - 2010	84.391	22,605	23,456
Special Education - Preschool Grants	PGS1 - 2011	84.173	240	-
Special Education Cluster Total			<u>211,978</u>	<u>263,561</u>
Safe and Drug-Free Schools and Communities - State Grants	DRS1 - 2010	84.186	1,108	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1 - 2011	84.186	-	1,380
			<u>1,108</u>	<u>1,380</u>
Education Technology State Grants	TJS1 - 2010	84.318	-	27
Education Technology State Grants	TJS1 - 2011	84.318	1,020	1,132
			<u>1,020</u>	<u>1,159</u>
Reading First State Grants	RSS1 - 2010	84.357	104,340	45,241
Reading First State Grants	RSS1 - 2011	84.357	348,451	437,711
			<u>452,791</u>	<u>482,952</u>
Improving Teacher Quality State Grants	TRS1 - 2010	84.367	1,921	7,830
Improving Teacher Quality State Grants	TRS1 - 2011	84.367	44,518	45,479
			<u>46,439</u>	<u>53,309</u>
School Improvement Grants	C1SK-2010	84.377	5,611	3,036
ARRA-State Fiscal Stabilization Fund - Education State Grants	ARRA-2010	84.394	-	13,526
ARRA-State Fiscal Stabilization Fund - Education State Grants	ARRA-2011	84.394	151,072	139,870
			<u>151,072</u>	<u>153,396</u>
ARRA - Race to the Top	2011	84.395	-	22,763
<i>(Passed Through Great Oaks Institute of Technology and Career Development)</i>				
Vocational Education - Basic Grants to States	2011	84.048	2,202	1,297
Total U.S. Department of Education			<u>1,446,827</u>	<u>1,584,022</u>
<u>Corporation for National and Community Service</u>				
<i>(Passed through Ohio Department of Education)</i>				
Learn & Serve America	2010	94.004	-	200
Total Federal Financial Assistance			<u>\$ 1,672,780</u>	<u>1,810,757</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

NOTE C - NUTRITION CLUSTER

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

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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, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2011, wherein we noted that the School District has prepared its financial statements using a modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America and the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combinations of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2011-1.

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

The School District's 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.

Clark, Schaefer, Hachett & Co.

Middletown, Ohio
December 29, 2011

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

To the Board of Education
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, 2011. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, 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, 2011.

Internal Control over Compliance

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

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

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

This report is intended solely for the information and use of management, the Board of Education, others within the School District 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, Hachett & Co.

Middletown, Ohio
December 29, 2011

**LOCKLAND LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Type of auditors' report issued on compliance for major programs:	unqualified
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Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	no
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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

CFDA 84.357 Reading First State Grants*

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
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Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

Finding 2011-1 – 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

None

LOCKLAND LOCAL SCHOOL DISTRICT
Schedule of Prior Audit Findings
Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Current Status
2010-1	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 2011-1
2010-2	Title I, Part A Cluster - CFDA Nos. 84.010 and 84.389 The School District failed to meet the required set-asides for supplemental education services in fiscal 2010. We noted that in FY2010 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.	Not required in FY11	

Independent Accountants' Report on Applying Agreed-Upon Procedure

Lockland Local School District
Hamilton County
210 North Cooper Avenue
Lockland, Ohio 45215

To the Board of Education:


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

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

1. We noted the Board amended its anti-harassment policy at its meeting on February 11, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.



Middletown, Ohio
December 29, 2011



Dave Yost • Auditor of State

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
APRIL 3, 2012