



Dave Yost • Auditor of State

**LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 significant estimates made by management, as well as evaluating the overall financial statement opinion. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-02-03(B) requires the 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 follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lockland Local School District, Hamilton County, Ohio, as of June 30, 2012 and the respective changes in modified cash financial position, thereof for the year then ended in conformity with the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *Required budgetary comparison schedule*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures (the schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The schedule provides additional information, but is not part of the basic financial statements. However, the schedule is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 14, 2013

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

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, 2012. 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 2012 are as follows:

- For governmental activities, net assets decreased \$449,467, which represents a 16 percent decrease from 2011.
- General receipts accounted for \$6.4 million or 78 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 \$1.8 million or 22 percent of total governmental receipts of \$8.2 million.
- The School District had \$8.6 million in disbursements related to governmental activities; only \$1.8 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 \$6.4 million provided resources for these programs but did not cover the full costs resulting in a decrease of \$449,467 in net assets.
- The School District's major funds were the general fund and debt service fund. All governmental funds had total receipts of \$8.2 million and disbursements of \$8.6 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 \$411,581.

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, 2012

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 2012, 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, 2012
Unaudited*

Fiduciary Funds. The School District has only one 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, 2012 and 2011:

	2012 Governmental Activities	2011 Governmental Activities
Assets:		
Cash and Investments	\$2,407,469	\$2,856,936
<i>Total Assets</i>	<u>\$2,407,469</u>	<u>\$2,856,936</u>
Net Assets:		
Restricted	\$738,202	\$1,419,231
Unrestricted	<u>1,669,267</u>	<u>1,437,705</u>
<i>Total Net Assets</i>	<u>\$2,407,469</u>	<u>\$2,856,936</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 (\$1,669,267) may be used to meet the government's ongoing obligations to citizens and creditors.

The decrease in cash is largely a result of decreases in funding. The majority of this decrease is related to decreased operating grants and contributions received from stimulus funds.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

The table below shows the net changes in net assets for fiscal year 2012 compared to 2011.

	2012 Governmental Activities	2011 Governmental Activities	Increase (Decrease)
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$ 692,017	\$ 839,629	\$ (147,612)
Operating Grants and Contributions	1,113,089	1,710,838	(597,749)
Capital Grants and Contributions	7,200	9,100	(1,900)
Total Program Receipts	1,812,306	2,559,567	(747,261)
General Receipts:			
Property Taxes	2,705,751	2,464,385	241,366
Grants and Entitlements	3,445,977	3,437,708	8,269
Investment Earnings	6,005	7,101	(1,096)
Miscellaneous	214,564	81,948	132,616
Total General Receipts	6,372,297	5,991,142	381,155
Total Receipts	8,184,603	8,550,709	(366,106)
Disbursements:			
Instruction:			
Regular	3,647,867	3,794,922	(147,055)
Special	883,898	902,477	(18,579)
Other Instruction	21,939	56,272	(34,333)
Support Services:			
Pupils	397,548	294,010	103,538
Instructional Staff	564,203	785,329	(221,126)
Board of Education	92,706	72,947	19,759
Administration	688,515	800,309	(111,794)
Fiscal	307,627	338,889	(31,262)
Business	4,519	4,545	(26)
Operation and Maintenance of Plant	1,033,477	1,119,863	(86,386)
Pupil Transportation	23,786	29,035	(5,249)
Central	175,913	122,113	53,800
Non-instructional services:			
Extracurricular Activities	254,327	264,307	(9,980)
Community Services	13,140	71,156	(58,016)
Food Service	272,930	262,686	10,244
Debt Service:			
Principal Retirement	235,000	330,000	(95,000)
Interest on Long-Term Debt	16,675	17,850	(1,175)
Total Disbursements	8,634,070	9,266,710	(632,640)
Changes in Net Assets	(449,467)	(716,001)	266,534
Beginning Net Assets	2,856,936	3,572,937	
Ending Net Assets	\$ 2,407,469	\$ 2,856,936	

Of the total governmental activities receipts of \$8,184,603, \$1,812,306 (22%) 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, 42% (\$2,705,751) comes from property tax levies and 54% (\$3,445,977) is from state funding. The School District's operations are reliant upon its property tax levy and state's foundation program.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Governmental Activities

The School District's governmental activities net assets decreased by \$449,467. Decreases in receipts were primarily a result of decreases in stimulus funding. 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. \$1,812,306 of the cost of the general government programs was recouped in program receipts. Instruction costs were \$4,553,704, but program receipts contributed to fund 24% of these costs. Thus, general receipts of \$3,483,550 were used to support the remainder of the instruction costs.

	2012		2011	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$4,553,704	\$3,483,550	\$4,753,671	\$3,183,874
Support Services:				
Pupils and Instructional Staff	961,751	622,022	1,079,339	641,761
Board of Education, Administration, Fiscal and Business	1,093,367	1,093,367	1,216,690	1,195,898
Operation and Maintenance of Plant	1,033,477	974,811	1,119,863	930,845
Pupil Transportation	23,786	23,786	29,035	29,035
Central	175,913	134,852	122,113	108,520
Non-instructional services:				
Extracurricular activities	254,327	221,629	264,307	241,719
Community services	13,140	13,140	71,156	34,346
Food Service	272,930	2,932	262,686	(6,705)
Debt Service:				
Principal retirement	235,000	235,000	330,000	330,000
Interest on long-term debt	16,675	16,675	17,850	17,850
Total Disbursements	\$8,634,070	\$6,821,764	\$9,266,710	\$6,707,143

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

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 \$2,209,240 (92%) of the total \$2,407,469 governmental fund assets.

General Fund: Fund balance at June 30, 2012 was \$1,923,265, including \$1,118,388 of unassigned fund balance, which represents 16% of disbursements for fiscal year 2012. Both receipts and disbursements are up approximately 4% this year, with disbursements exceeding receipts by \$331,863. However, the negative net change in fund balance decreased by \$436,414 from the prior year due to repayment of advances paid out to other governmental funds last fiscal year.

Debt Service Fund: The fund balance at June 30, 2012 was \$285,975, which is restricted for future principal and interest payments on long-term debt. Current year change in fund balance was a decrease of \$5,120.

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 2012, 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, the final budget basis receipts and other financing sources were \$6.9 million, an increase from original estimates of \$6.6 million. This increase was primarily due to prior year expenditure refunds attributed to retirement contributions and reclassifying older outstanding checks as uncollected funds. Final budgeted disbursements and other financing uses were \$7.5 million, an increase from the original estimate of \$7.2 million. The increase was primarily due to increases in required special expenditures, legal expenditures, and advances and transfers.

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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

At June 30, 2012, the School District had \$760,000 outstanding in School Improvement Refunding Bonds with \$225,000 due within one year. See Note 5 to the basic financial statements for more information regarding debt obligations.

Current Financial Related Activities

The School District had approximately \$1.7 million in unrestricted net assets on the modified cash basis as of June 30, 2012. As the preceding information shows, the School District heavily depends on its property taxpayers. However, financially the future is not without challenges.

With the phase out of the tax on Tangible Personal Property (TPP) (HB66, 2005) fully completed in 2011, the School District was fully reliant on the phased-in state reimbursement to replace the lost revenue. In 2010, following legislative action, a School District's reliance on TPP reimbursement had to exceed 2% of selected revenue by 2013 in order to continue to receive the TPP reimbursement. After 2013, if the reliance exceeds 2% of selected revenues, the reimbursement is frozen until further action by the State legislature. The School District's TPP reimbursement is currently frozen.

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, which currently projects a cash deficit in 2015. The School District must seek additional tax revenues to continue operations because it is unable to look to the State for increased support.

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, 2012

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,153,471
Restricted cash	<u>253,998</u>
Total assets	<u>2,407,469</u>
Net Assets:	
Restricted for:	
Capital projects	21,383
Debt service	285,975
Set asides	253,998
Other purposes	176,846
Unrestricted	<u>1,669,267</u>
Total net assets	<u>\$ 2,407,469</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities - Modified Cash Basis
Year Ended June 30, 2012

	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	\$ 3,647,867	615,743	147,200	7,200	(2,877,724)
Special education	883,898	-	300,011	-	(583,887)
Other instruction	21,939	-	-	-	(21,939)
Support services:					
Pupil	397,548	-	18,032	-	(379,516)
Instructional staff	564,203	-	321,697	-	(242,506)
Board of Education	92,706	-	-	-	(92,706)
Administration	688,515	-	-	-	(688,515)
Fiscal	307,627	-	-	-	(307,627)
Business	4,519	-	-	-	(4,519)
Operation and maintenance of plant	1,033,477	-	58,666	-	(974,811)
Pupil transportation	23,786	-	-	-	(23,786)
Central	175,913	-	41,061	-	(134,852)
Non-instructional services:					
Extracurricular activities	254,327	32,698	-	-	(221,629)
Community service	13,140	-	-	-	(13,140)
Food service	272,930	43,576	226,422	-	(2,932)
Debt service:					
Principal retirement	235,000	-	-	-	(235,000)
Interest on long-term debt	16,675	-	-	-	(16,675)
	<u>\$ 8,634,070</u>	<u>692,017</u>	<u>1,113,089</u>	<u>7,200</u>	<u>(6,821,764)</u>
General Receipts:					
Property taxes, levied for general purposes					2,609,609
Property taxes, levied for debt service					96,142
Grants and entitlements not restricted to specific programs					3,445,977
Investment earnings					6,005
Miscellaneous					214,564
Total general receipts					<u>6,372,297</u>
Change in net assets					(449,467)
Net assets beginning of year					<u>2,856,936</u>
Net assets end of year					<u>\$ 2,407,469</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets and Fund Balances - Modified Cash Basis

Governmental Funds

June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 1,669,267	285,975	198,229	2,153,471
Restricted cash	<u>253,998</u>	<u>-</u>	<u>-</u>	<u>253,998</u>
Total assets	<u><u>1,923,265</u></u>	<u><u>285,975</u></u>	<u><u>198,229</u></u>	<u><u>2,407,469</u></u>
Fund Balances:				
Restricted	253,998	285,975	198,229	738,202
Assigned	550,879	-	-	550,879
Unassigned	<u>1,118,388</u>	<u>-</u>	<u>-</u>	<u>1,118,388</u>
Total fund balances	<u><u>\$ 1,923,265</u></u>	<u><u>285,975</u></u>	<u><u>198,229</u></u>	<u><u>2,407,469</u></u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

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

Governmental Funds

Year Ended June 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts				
Property taxes	\$ 2,609,609	96,142	-	2,705,751
Tuition and fees	615,743	-	-	615,743
Interest	6,000	-	5	6,005
Charges for services	-	-	76,274	76,274
Intergovernmental	3,293,290	152,687	1,120,289	4,566,266
Miscellaneous	200,972	-	13,592	214,564
Total receipts	<u>6,725,614</u>	<u>248,829</u>	<u>1,210,160</u>	<u>8,184,603</u>
Disbursements				
Current:				
Instruction:				
Regular	3,532,239	-	115,628	3,647,867
Special education	565,842	-	318,056	883,898
Other	21,939	-	-	21,939
Support services:				
Pupil	375,120	-	22,428	397,548
Instructional staff	275,403	-	288,800	564,203
Board of Education	92,456	-	250	92,706
Administration	688,515	-	-	688,515
Fiscal	305,353	2,274	-	307,627
Business	4,519	-	-	4,519
Operation and maintenance of plant	980,553	-	52,924	1,033,477
Pupil transportation	23,786	-	-	23,786
Central	132,715	-	43,198	175,913
Non-instructional services:				
Extracurricular activities	48,190	-	206,137	254,327
Community service	10,847	-	2,293	13,140
Food service	-	-	272,930	272,930
Debt Service:				
Principal	-	235,000	-	235,000
Interest and fiscal charges	-	16,675	-	16,675
Total disbursements	<u>7,057,477</u>	<u>253,949</u>	<u>1,322,644</u>	<u>8,634,070</u>
Excess of receipts over (under) disbursements	<u>(331,863)</u>	<u>(5,120)</u>	<u>(112,484)</u>	<u>(449,467)</u>
Other financing sources (uses):				
Advances in	209,733	-	392	210,125
Advances out	(392)	-	(209,733)	(210,125)
Transfers in	0	-	289,059	289,059
Transfers out	(289,059)	-	-	(289,059)
Total other financing sources (uses)	<u>(79,718)</u>	<u>-</u>	<u>79,718</u>	<u>-</u>
Net change in fund balance	(411,581)	(5,120)	(32,766)	(449,467)
Fund balance, beginning of year	2,334,846	291,095	230,995	2,856,936
Fund balance, end of year	<u>\$ 1,923,265</u>	<u>285,975</u>	<u>198,229</u>	<u>2,407,469</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, 2012

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>13,759</u>
Total assets	<u><u>13,759</u></u>
NET ASSETS	
Held for students	<u>13,759</u>
Total net assets	\$ <u><u>13,759</u></u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

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, 2012

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.

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

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 net assets) 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 2012 is as follows:

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Hamilton County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the 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 2012.

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 2012.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

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 disbursements 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, 2012. 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 2012, 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, 2012.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2012 amounted to \$6,000 in the General Fund and \$5 in Other Governmental Funds.

Restricted cash is reported for the amounts the School District is required to set-aside for capital improvements. An analysis of the Treasurer's investment account at year-end is provided in Note 2.

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, 2012

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 5.

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, 2012.

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, 2012

The constraints placed on fund balance for the major and all other governmental funds at June 30, 2012 were:

Fund Balances	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<i>Restricted for:</i>				
Food Service Operations	\$ -	-	63,729	63,729
State Grants	-	-	17,058	17,058
Federal Grants	-	-	57,000	57,000
Other Purposes	-	-	39,059	39,059
Debt Service Payments	-	285,975	-	285,975
Capital Improvements	<u>253,998</u>	<u>-</u>	<u>21,383</u>	<u>275,381</u>
<i>Total Restricted</i>	253,998	285,975	198,229	738,202
<i>Assigned to:</i>				
Encumbrances	38,609	-	-	38,609
Future Appropriations	498,400	-	-	498,400
Other Purposes	<u>13,870</u>	<u>-</u>	<u>-</u>	<u>13,870</u>
<i>Total Assigned</i>	550,879	-	-	550,879
<i>Unassigned</i>	<u>1,118,388</u>	<u>-</u>	<u>-</u>	<u>1,118,388</u>
<i>Total Fund Balance</i>	\$ <u>1,923,265</u>	<u>285,975</u>	<u>198,229</u>	<u>2,407,469</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 statement reports 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, 2012

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 - 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.

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

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

Investments, in stripped principal or interest obligation, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

Protection of the 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

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 \$1,967,014 and the bank balance was \$1,979,572. Of the bank balance, \$256,632 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, 2012, 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%	\$454,241

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. 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 3 - 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 2012:

	Advances		Transfers	
	In	Out	In	Out
General Fund	\$ 209,733	392	-	289,059
Other Governmental Funds	<u>392</u>	<u>209,733</u>	<u>289,059</u>	<u>-</u>
Total	\$ <u>210,125</u>	<u>210,125</u>	<u>289,059</u>	<u>289,059</u>

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar-year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year, except monies available to be advanced against such distributions which may be appropriated and used in the current fiscal year. Property taxes include amounts levied against all real, public, and certain tangible (i.e., used in business) property located in the School District.

Real property taxes and public utility taxes are levied after April against the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised value.

Public utility property taxes are assessed on tangible personal property as well as land and improvements. Real property is assessed at 35% of true value and tangible personal property is currently assessed at varying percentages of true value. These taxes attach as a lien against local and inter-exchange telephone companies and are levied January 1 of the current year. Tangible personal property tax on business inventory, manufacturing machinery, and equipment is no longer levied and collected.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

The assessed values upon which fiscal year 2012 taxes were collected are as follows:

	<u>2011 Second- Half Collections</u>		<u>2012 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 68,449,270	92.65%	59,898,900	91.57%
Personal Property	<u>5,427,710</u>	<u>7.35%</u>	<u>5,512,450</u>	<u>8.43%</u>
Total Assessed Value	\$ <u>73,876,980</u>	<u>100.00%</u>	<u>65,411,350</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation		\$48.59		\$48.59

NOTE 5 - LONG-TERM DEBT

A. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30,</u>				
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>760,000</u>	<u>28,150</u>	<u>788,150</u>

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

B. Changes in Long Term Debt

During the year ended June 30, 2012, the following were the changes in long-term obligations.

	Principal Outstanding 7/1/11	Additions	Reductions	Principal Outstanding 6/30/12	Amounts Due in One Year
<i>Governmental Activities:</i>					
<i>General Obligation Bonds:</i>					
Series 2010, School Improvement Current Refunding Bonds, 1%-2.5%, 12/1/15 maturity	\$ 995,000	-	235,000	760,000	225,000
Total	\$ 995,000	-	235,000	760,000	225,000

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 \$5,127,022 with an unvoted debt margin of \$65,411 at June 30, 2012.

NOTE 6 - 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 2012, 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 2012, 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
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Year Ended June 30, 2012

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 7- 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, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 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, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% 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, 2012, 2011, and 2010 were approximately \$104,000, \$140,000, and \$158,000 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, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio website at www.strsoh.org.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

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 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

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.

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, 2012, 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, 2012, 2011, and 2010 were approximately \$478,000, \$491,000, and \$513,000, 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 8 - 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

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, 2012, 2011, and 2010. 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, 2012, 2011 and 2010 were approximately \$34,000, \$35,000, and \$37,000, respectively; all of which has been contributed for all three years.

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 2012 was \$99.90 for most participants, but could be as high as \$319.70 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 2012, the actuarially required allocation was 0.75%

The School District's required contribution for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$6,000, \$8,000, 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2012

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. For the year ended June 30, 2012, the health care allocation was 0.55%. 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 2012, 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, 2012, 2011, and 2010 were approximately \$4,000, \$14,000, and \$5,000, respectively; all of which has been contributed for all three years.

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

NOTE 9 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District receives 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 10 – 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 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 capital acquisition. Disclosure of this information is required by State statute.

		Textbooks	Capital Improvements
Set-aside balance as of June 30, 2011	\$	645,846	251,285
Current year set-aside requirement		-	105,706
Current year qualifying disbursements		-	(102,993)
H.B. 30 textbook repeal*		<u>(645,846)</u>	<u>-</u>
Total		<u>-</u>	<u>253,998</u>
Set-aside balance as of June 30, 2012	\$	<u>-</u>	<u>253,998</u>

* Effective July 1, 2011, 129th General Assembly repealed the textbook reserve requirement.

NOTE 11 – 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.

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, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Receipts				
Property taxes	\$ 2,593,489	2,609,609	2,609,609	-
Tuition and fees	511,691	615,743	615,743	-
Interest	4,986	6,000	6,000	-
Intergovernmental	3,254,821	3,293,290	3,293,290	-
Miscellaneous	-	193,991	194,320	329
Total receipts	<u>6,364,987</u>	<u>6,718,633</u>	<u>6,718,962</u>	<u>329</u>
Disbursements				
Current:				
Instruction:				
Regular	3,649,636	3,807,620	3,533,045	274,575
Special education	374,377	374,377	575,535	(201,158)
Vocational	-	-	-	-
Other instruction	30,981	30,981	21,939	9,042
Support services:				
Pupil	320,700	320,700	375,307	(54,607)
Instructional staff	281,882	281,882	275,403	6,479
Board of Education	66,116	66,116	99,416	(33,300)
Administration	676,509	676,509	692,294	(15,785)
Fiscal	315,514	315,514	305,353	10,161
Business	4,545	4,545	4,519	26
Operation and maintenance of plant	1,094,906	1,094,906	997,321	97,585
Pupil transportation	31,335	31,335	23,786	7,549
Central	120,455	120,455	132,919	(12,464)
Non-instructional services:				
Extracurricular activities	14,771	14,771	39,159	(24,388)
Total disbursements	<u>6,981,727</u>	<u>7,139,711</u>	<u>7,075,996</u>	<u>63,715</u>
Excess of receipts over (under) disbursements	(616,740)	(421,078)	(357,034)	64,044
Other financing sources (uses):				
Advances in	209,733	209,733	209,733	-
Advances out	(40,000)	(43,253)	(392)	42,861
Transfers out	(195,000)	(300,775)	(292,372)	8,403
Total other financing sources (uses)	<u>(25,267)</u>	<u>(134,295)</u>	<u>(83,031)</u>	<u>51,264</u>
Net change in fund balance	(642,007)	(555,373)	(440,065)	115,308
Fund balance, beginning of year	2,117,461	2,117,461	2,117,461	
Prior year encumbrances appropriated	115,339	115,339	115,339	
Fund balance, end of year	\$ <u>1,590,793</u>	<u>1,677,427</u>	<u>1,792,735</u>	

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Required Supplementary Information

Year Ended June 30, 2012

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	\$ (411,581)
Increase / (decrease):	
Due to encumbrances	(38,609)
GASB 54 fund classifications	<u>10,125</u>
Net change in fund balance - Budget Basis	\$ <u>(440,065)</u>

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**Lockland Local School District
Hamilton County**

**Federal Awards Receipts and Expenditures Schedule
For the Year Ended June 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution)</i>				
National School Lunch Program	N/A	10.555	\$14,810	\$14,810
<i>Cash Assistance</i>				
School Breakfast Program	05PU	10.553	40,330	40,330
National School Lunch Program	LLP4	10.555	<u>180,559</u>	<u>180,559</u>
Nutrition Cluster Total			<u>235,699</u>	<u>235,699</u>
Total U.S. Department of Agriculture			<u>235,699</u>	<u>235,699</u>
U.S. Department of Education:				
Safe and Drug-Free Schools and Communities - National Programs	N/A	84.184	758	3,204
<i>(Passed through Ohio Department of Education)</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	C1S1 - 2011	84.010	42,765	50,277
Title I Grants to Local Educational Agencies	C1S1 - 2012	84.010	327,333	325,654
ARRA-Title I Grants to Local Educational Agencies	ARRA - 2010	84.389	-	1,388
ARRA-Title I Grants to Local Educational Agencies	ARRA - 2011	84.389	-	<u>11,124</u>
Title I, Part A Cluster Total			<u>370,098</u>	<u>388,443</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF - 2011	84.027	-	22,974
Special Education - Grants to States	6BSF - 2012	84.027	116,179	116,182
ARRA-Special Education - Grants to States	ARRA - 2011	84.391	10,987	12,169
Special Education - Preschool Grants	PGS1 - 2011	84.173	<u>240</u>	-
Special Education Cluster Total			<u>127,406</u>	<u>151,325</u>
Safe and Drug-Free Schools and Communities - State Grants	DRS1 - 2011	84.186	<u>1,379</u>	<u>1,379</u>
Education Technology State Grants	TJS1 - 2011	84.318	<u>107</u>	-
Reading First State Grants	RSS1 - 2011	84.357	<u>115,424</u>	<u>43,729</u>
English Language Acquisition Grants	T3S2 - 2012	84.365	<u>4,265</u>	<u>3,967</u>
Improving Teacher Quality State Grants	TRS1 - 2011	84.367	3,608	8,420
Improving Teacher Quality State Grants	TRS1 - 2012	84.367	<u>31,150</u>	<u>31,239</u>
			<u>34,758</u>	<u>39,659</u>
School Improvement Grants	C1SK-2010	84.377	<u>-</u>	<u>3,750</u>
ARRA - Race to the Top	2011	84.395	25,447	3,680
ARRA - Race to the Top	2012	84.395	<u>17,589</u>	<u>17,111</u>
			<u>43,036</u>	<u>20,791</u>
Education Jobs Fund	N/A	84.410	<u>100,376</u>	<u>98,699</u>
<i>(Passed Through Great Oaks Institute of Technology and Career Development)</i>				
Vocational Education - Basic Grants to States	2011	84.048	<u>2,202</u>	<u>114</u>
Total U.S. Department of Education			<u>799,809</u>	<u>755,060</u>
Total Federal Financial Assistance			\$ <u>1,035,508</u>	\$ <u>990,759</u>

**LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Lockland Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lockland Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2013, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2012-002 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 14, 2013.

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

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 14, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Lockland Local School District, Hamilton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2012-003.

Internal Control Over Compliance

The District's management 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 District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *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 federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2012-003. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We intend this report solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 14, 2013

**LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.010 and 84.389 Title I Part A Cluster CFDA #10.553 and 10.555 Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-001

Noncompliance

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 District prepared its financial statements in accordance with the modified cash basis of accounting. The financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Failure to report on a GAAP basis may result in fines and various other administrative remedies that may be taken against the District. We recommend the District prepare its annual financial report in accordance with GAAP.

**FINDING NUMBER 2012-001
 (Continued)**

Officials' 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.

FINDING NUMBER 2012-002

Significant Deficiency

The budgetary accounting system should promote the monitoring of estimated receipts and appropriations by properly reporting budgeted and actual amounts. Budgeted amounts should reflect official budgetary documents, including the certificate of estimated resources and appropriations resolution. Appropriation amendments should be approved by the Board, estimated receipts should be certified to the County Budget Commission for approval, and all amendments should be properly recorded in the accounting system.

In fiscal year 2012, estimated receipts were not posted to the accounting system as follows:

Fund	Estimated Receipts	System Receipts	Variance
001 General	\$6,928,365	\$0	\$6,928,365
002 Bond Retirement	248,829	0	248,829
006 Food Service	270,765	0	270,765
018 Public School Support	9,963	0	9,963
019 Other Local Grants	8,735	0	8,735
200 Classroom Activities	19,652	0	19,652
300 Student Activities	207,348	0	207,348
463 Alternative Education	35,417	0	35,417
504 Ed Jobs	100,376	0	100,376
506 Race to the Top	44,032	0	44,032
516 Title VI-B	183,571	0	183,571
551 Title III	5,592	0	5,592
572 Title I	403,803	0	403,803
584 Drug Free Schools	52,117	0	52,117
590 Title II-A	40,620	0	40,620
599 Miscellaneous Federal Grants	134,605	0	134,605

**FINDING NUMBER 2012-002
 (Continued)**

In fiscal year 2012, appropriations were not accurately posted to the accounting system as follows:

Fund	Approved Appropriations	System Appropriations	Variance
001 General	\$7,368,400	\$7,148,086	\$220,314
002 Bond Retirement	254,957	421,082	(166,125)
006 Food Service	306,143	252,292	53,851
018 Public School Support	9,239	14,036	(4,797)
019 Other Local Grants	8,908	3,020	5,888
020 Daycare	10,847	7,000	3,847
200 Classroom Activities	19,440	23,340	(3,900)
300 Student Activities	208,829	189,902	18,927
432 EMIS	4,519	0	4,519
463 Alternative Education	35,416	31,136	4,280
504 Ed Jobs	98,699	0	98,699
506 Race to the Top	47,305	60,256	(12,951)
516 Title VI-B	183,560	143,753	39,807
551 Title III	3,967	0	3,967
572 Title I	406,216	385,417	20,799
584 Drug Free Schools	53,224	50,000	3,224
590 Title II-A	40,620	37,237	3,383
599 Miscellaneous Federal Grants	152,555	4,856	147,699

Failure to properly record estimated receipts and appropriations in the accounting system may result in an inability of management and the Board to properly monitor the activity and budgetary status of the District, which may result in negative fund balances and overspending. We recommend that management post estimated receipts to the accounting system. Further, we recommend that management periodically review amounts recorded in the budgetary system for accuracy and agreement with official budgetary documents.

Officials' Response:

The District is aware of the issues and will take steps to correct.

3. FINDINGS FOR FEDERAL AWARDS

Noncompliance/Significant Deficiency

Finding Number	2012-003
CFDA Title and Number	ARRA Title I Grants to Local Educational Agencies – 84.389 Safe and Drug-free Schools and Communities State Grants – 84.186 School Improvement Grants – 84.377
Federal Award Number/Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular A-133, Subpart C, Section .300, states, in part, that the auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreement that could have a material effect on each of its Federal programs.
- (c) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards, in accordance with OMB Circular A-133, Section 310.

During our review of the District’s Federal Awards Receipts and Expenditures Schedule, we noted the following misstatements of expenditures:

CFDA #	Federal Program	Pass-Through Number	Amount of Expenditure Overstatement/ (Understatement)	Amount of Receipt Overstatement/ (Understatement)
84.389	ARRA - Title I Grants to LEAs	ARRA-2011	\$1,698	\$0
84.186	Safe and Drug-free Schools & Communities - State Grants	DRS1-2011	(\$50,423)	(\$49,358)
84.377	School Improvement Grants	C1SK-2010	\$3,750	\$0

To reduce the risk of errors in the Federal Awards Receipts and Expenditures Schedule, we recommend that the District Treasurer compare the Schedule to appropriate supporting records and documentation, including the Federal Subsidy Report and reports of federal program expenditures.

The Schedule of Federal Awards Receipts and Expenditures Schedule included in this report has been adjusted to properly reflect the correct amounts.

Officials’ Response:

There was additional Drug Free funds made available that had to be liquidated by 12/31/11. They had to be accounted for separately, which required a SPCC out of the range of our normal fiscal year designation. This was simply an oversight in not placing the allocation on the federal schedule.

LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Failure to file the annual report in accordance with generally accepted accounting principles (GAAP).	Not corrected.	Reissued as Finding 2012-001.

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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 9, 2013