

Lockland Local School District

Hamilton County, Ohio

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER CPAs, INC.**

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**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Lockland Local School District, Hamilton County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lockland Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 30, 2006

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**Hamilton County, Ohio**  
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## Independent Auditor's Report

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

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 (the District), as of and for the year ended June 30, 2005, 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 opinions on these financial statements based on our audit.

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

We were unable to obtain supporting documentation for amounts paid in to the student activity fund. The student activities agency fund represents 3.3 percent of total net assets of aggregate remaining fund information.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, except for such adjustments as may have been needed had we been able to examine evidence related to the fiduciary fund type presented in the Statement of Fiduciary Net Assets – Cash Basis, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 12, for the year ended June 30, 2005, the District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Balestra, Harr & Scherer, CPAs, Inc.  
March 6, 2006

**Lockland Local School District**  
**Hamilton County**  
*Management's Discussion and Analysis*  
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*Unaudited*

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The discussion and analysis of the Lockland Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for 2005 are as follows:

*Overall:*

- For governmental activities, net assets increased \$1.1 million, which represents a 60 percent increase from 2004.
- General receipts accounted for \$7 million in receipts or 81 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$1.7 million or 19 percent of total governmental receipts of \$8.7 million.
- The District had \$7.6 million in disbursements related to governmental activities; only \$1.7 million of these disbursements were offset by program specific charges for services and sales, grants and contributions. General receipts (primarily taxes and unrestricted grants and entitlements) of \$7 million were adequate to provide for these programs, resulting in an increase in net assets of \$1.1 million.
- The District's major funds were the general fund and debt service fund. All governmental funds had total revenues of \$8.7 million and expenditures of \$7.6 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's net assets increased by \$1.2 million for fiscal year 2005.

### **Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provides information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund and debt service fund by far are the most significant funds.

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 basic financial statements.

### **Basis of Accounting**

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

As a result of using the 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 cash basis of accounting.

**Lockland Local School District**  
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## **Reporting the District as a Whole**

### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities reflect how the District did financially during the fiscal year, within the limitations of the cash basis of accounting. The Statement of Net Assets presents cash and investment balances of the governmental activities of the District at fiscal year end. The Statement of Activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipients of program goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's financial position and the changes in financial position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's financial position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well, such as the District's property tax base, the condition of the District's capital assets, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the District has only one kind of activity:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. Due to the continuing subsidies that are going to the lunchroom fund from the general fund, the operation of food services is also being considered as governmental activities.

## **Reporting the District's Most Significant Funds**

### *Fund Financial Statements*

The analysis of the District's major funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the District's most significant funds. The District's major governmental funds are the general and debt service funds.

**Governmental Funds** Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed *short-term view* of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the Net Assets, and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary on such financial statements. However, differences will be apparent when comparing gross receipts and disbursements on the Fund Financial Statements to the Statement of Activities due to transfers netted on the Statement of Activities. See Note 2 to the basic financial statements in the section entitled *Interfund Transactions*.

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**Fiduciary Funds** The District only has agency funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets – Cash Basis. We excluded these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal net assets – cash basis) and do not involve measurement of results of operations. Fiduciary funds use the cash basis of accounting.

**The District as a Whole**

Table 1 shows net assets for fiscal year 2005 compared to 2004.

	2005 Governmental Activities	2004 Governmental Activities
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current and Other Assets	<u>\$2,922,955</u>	<u>\$1,830,995</u>
<i>Total Assets</i>	<u><u>\$2,922,955</u></u>	<u><u>\$1,830,995</u></u>
<b>Net Assets:</b>		
Restricted	\$1,268,265	\$819,304
Unrestricted	<u>1,654,690</u>	<u>1,011,691</u>
<i>Total Net Assets</i>	<u><u>\$2,922,955</u></u>	<u><u>\$1,830,995</u></u>

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The table below shows the net changes in net assets for fiscal year 2005 compared to 2004.

	<b>Table 2</b>		
	2005	2004	
	Governmental Activities	Governmental Activities	Increase (Decrease)
<b>Receipts:</b>			
Program Receipts:			
Charges for Services and Sales	\$546,646	\$138,874	\$407,772
Operating Grants and Contributions	1,113,240	1,098,801	14,439
<i>Total Program Receipts</i>	1,659,886	1,237,675	422,211
General Receipts:			
Property Taxes	4,557,551	3,222,399	1,335,152
Grants and Entitlements	2,036,439	1,633,658	402,781
Investment Earnings	52,885	22,795	30,090
Miscellaneous	346,130	32,587	313,543
Proceeds from the Sale of Assets	10,000	0	10,000
<i>Total General Receipts</i>	7,003,005	4,911,439	2,091,566
<b>Total Receipts</b>	8,662,891	6,149,114	2,513,777
<b>Disbursements:</b>			
Instruction:			
Regular	2,932,281	2,929,012	3,269
Special	339,698	393,445	(53,747)
Vocational	73,375	79,348	(5,973)
Support Services:			
Pupils	369,902	352,300	17,602
Instructional Staff	788,583	817,418	(28,835)
Board of Education	18,006	29,905	(11,899)
Administration	677,574	787,591	(110,017)
Fiscal	260,488	227,271	33,217
Business	81,980	104,939	(22,959)
Operation and Maintenance of Plant	869,354	654,708	214,646
Pupil Transportation	58,489	79,075	(20,586)
Central	8,811	15,165	(6,354)
Operation of Non-instructional Services	18,942	3,608	15,334
Operation of Food Services	319,295	311,838	7,457
Extracurricular Activities	210,165	233,420	(23,255)
Principal Retirement	400,000	400,000	0
Interest and Fiscal Charges	143,988	163,087	(19,099)
<b>Total Disbursements</b>	7,570,931	7,582,130	(18,656)
<b>Changes in Net Assets</b>	1,091,960	(1,433,016)	2,524,976
<b>Beginning Net Assets</b>	1,830,995	3,264,011	
<b>Ending Net Assets</b>	\$2,922,955	\$1,830,995	

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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 53 percent of revenue for governmental activities for the District in fiscal year 2005, a slight increase from prior years.

***Governmental Activities***

Net assets of the District's governmental activities increased by \$1.1 million. The governmental disbursements of \$7,570,931 were offset by program receipts of \$1,659,886 and general receipts of \$7,003,005. Program receipts supported 22% of the total governmental activities.

The primary sources of receipts for governmental activities are derived from property taxes and grants and entitlements. These two receipt sources represent 89% of total governmental receipts.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted state entitlements.

**Table 3**

**Total and Net Cost of Program Services**  
**Governmental Activities**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$3,345,354	\$1,989,992	\$3,401,805	\$2,811,986
Support Services:				
Pupils and Instructional Staff	1,158,485	1,111,757	1,169,718	768,005
Board of Education, Administration, Fiscal and Business	1,038,048	1,038,048	1,149,706	1,149,706
Operation and Maintenance of Plant	869,354	869,354	654,708	654,708
Pupil Transportation	58,489	58,489	79,075	79,075
Central	8,811	8,811	15,165	15,165
Operation of Non-instructional Services	18,942	18,942	3,608	3,608
Operation of Food Services	319,295	94,692	311,838	98,181
Extracurricular Activities	210,165	176,972	233,420	200,934
Principal, Interest and Fiscal Charges	543,988	543,988	563,087	563,087
<b>Total Disbursements</b>	<b>\$7,570,931</b>	<b>\$5,911,045</b>	<b>\$7,582,130</b>	<b>\$6,344,455</b>

The dependence upon general tax receipts and unrestricted grants and entitlements for governmental activities is apparent. Over 48 percent of instruction activities are supported through taxes and other general receipts. For all governmental activities, general receipts and prior year net assets balances support the majority of the costs as shown in the above table. The community and the State, as a whole, provide the primary support for the District students.

**Lockland Local School District**  
**Hamilton County**  
*Management's Discussion and Analysis*  
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***The District's Funds***

Information about the District's major funds starts on page 10. These funds are accounted for using the cash basis of accounting. The general fund had \$6.8 million in receipts and \$5.5 million in disbursements. The general fund's fund balance increased to \$2.3 million from \$1.1 million. The debt service fund had \$0.6 million in receipts and \$0.6 million in disbursements. The debt service fund balance increased from \$0.35 million to \$0.36 million.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2005, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis receipts and other financing sources were \$6.9 million, an increase from original estimates of \$6.2 million due to more collections of taxes and intergovernmental receipts than originally expected. Total actual disbursements and other financing uses on the budget basis (cash outlays plus encumbrances) were \$5.8 million, \$1.1 million below actual receipts and other financing sources.

**Capital Assets and Debt Administration**

***Capital Assets***

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

***Debt***

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

At June 30, 2005, the District had \$2,625,000 in general obligation bonds outstanding. Of this total, \$400,000 is due within one year and \$2,225,000 is due more than one year. The District also had \$710,551 in capital appreciation bonds outstanding at fiscal year end. This balance includes \$405,552 in accreted debt. See Note 6 to the basic financial statements for more information regarding debt obligations.

**Current Financial Related Activities**

The District had approximately \$1.7 million in unrestricted net assets on the cash basis as of June 30, 2005. As the preceding information shows, the District heavily depends on its property taxpayers. However, financially the future is not without challenges.

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

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

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

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

**Contacting the District's Financial Management**

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

**Lockland Local School District**  
**Hamilton County**  
*Statement of Net Assets - Cash Basis*  
*June 30, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$2,922,955</u>
<i>Total Assets</i>	<u><u>\$2,922,955</u></u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	\$364,832
Set Asides	610,215
Other Purposes	293,218
Unrestricted	<u>1,654,690</u>
<i>Total Net Assets</i>	<u><u>\$2,922,955</u></u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
**Hamilton County**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2005*

	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	
			Governmental Activities	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$2,932,281	\$434,707	\$729,665	(\$1,767,909)
Special	339,698	0	190,990	(148,708)
Vocational	73,375	0	0	(73,375)
Support Services:				
Pupils	369,902	0	0	(369,902)
Instructional Staff	788,583	46,728	0	(741,855)
Board of Education	18,006	0	0	(18,006)
Administration	677,574	0	0	(677,574)
Fiscal	260,488	0	0	(260,488)
Business	81,980	0	0	(81,980)
Operation and Maintenance of Plant	869,354	0	0	(869,354)
Pupil Transportation	58,489	0	0	(58,489)
Central	8,811	0	0	(8,811)
Operation of Non-Instructional Services	18,942	0	0	(18,942)
Operation of Food Services	319,295	32,018	192,585	(94,692)
Extracurricular Activities	210,165	33,193	0	(176,972)
Principal Retirement	400,000	0	0	(400,000)
Interest and Fiscal Charges	143,988	0	0	(143,988)
<i>Total Governmental Activities</i>	<u>\$7,570,931</u>	<u>\$546,646</u>	<u>\$1,113,240</u>	(5,911,045)
<b>General Receipts</b>				
Property Taxes Levied for:				
				4,009,261
				548,290
Grants and Entitlements not Restricted to Specific Programs				2,036,439
Interest				52,885
Miscellaneous				346,130
Proceeds from the Sale of Assets				10,000
<i>Total General Receipts</i>				<u>7,003,005</u>
Change in Net Assets				1,091,960
<i>Net Assets Beginning of Year</i>				<u>1,830,995</u>
<i>Net Assets End of Year</i>				<u>\$2,922,955</u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
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*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2005*

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$2,264,905	\$364,832	\$293,218	\$2,922,955
<i>Total Assets</i>	<u>\$2,264,905</u>	<u>\$364,832</u>	<u>\$293,218</u>	<u>\$2,922,955</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	\$66,213	\$0	\$167,409	\$233,622
Reserved for Capital Acquisitions	71,157	-	-	71,157
Reserved for Textbooks	486,976	-	-	486,976
Reserved for Budget Stabilization	52,082	-	-	52,082
Unreserved:				
Undesignated, Reported in:				
General Fund	1,588,477	0	0	1,588,477
Special Revenue Funds	0	0	125,809	125,809
Debt Service Fund	0	364,832	0	364,832
<i>Total Fund Balances</i>	<u>\$2,264,905</u>	<u>\$364,832</u>	<u>\$293,218</u>	<u>\$2,922,955</u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
**Hamilton County**  
*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property Taxes	\$4,009,261	\$548,290	\$0	\$4,557,551
Intergovernmental	2,016,762	19,677	1,113,240	3,149,679
Interest	51,773	0	1,112	52,885
Tuition and Fees	433,808	0	46,728	480,536
Extracurricular Activities	0	0	33,193	33,193
Classroom Materials and Fees	899	0	0	899
Food Services	0	0	32,018	32,018
Miscellaneous	335,973	0	12,802	348,775
<i>Total Receipts</i>	<u>6,848,476</u>	<u>567,967</u>	<u>1,239,093</u>	<u>8,655,536</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	2,452,309	0	479,972	2,932,281
Special	128,536	0	211,162	339,698
Vocational	73,375	0	0	73,375
Support Services:				
Pupils	331,329	0	38,573	369,902
Instructional Staff	433,545	0	355,038	788,583
Board of Education	16,858	0	1,148	18,006
Administration	674,274	0	3,300	677,574
Fiscal	251,721	8,767	0	260,488
Business	81,980	0	0	81,980
Operation and Maintenance of Plant	830,151	0	39,203	869,354
Pupil Transportation	58,489	0	0	58,489
Central	8,811	0	0	8,811
Operation of Non-Instructional Services	333	0	18,609	18,942
Operation of Food Services	0	0	319,295	319,295
Extracurricular Activities	143,339	0	66,826	210,165
Debt Service:				
Principal Retirement	0	400,000	0	400,000
Interest and Fiscal Charges	0	143,988	0	143,988
<i>Total Disbursements</i>	<u>5,485,050</u>	<u>552,755</u>	<u>1,533,126</u>	<u>7,570,931</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,363,426</u>	<u>15,212</u>	<u>(294,033)</u>	<u>1,084,605</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the Sale of Assets	10,000	0	0	10,000
Refund of Prior Year Receipts	(2,520)	0	(125)	(2,645)
Advances In	42,499	0	85,403	127,902
Advances Out	(95,183)	0	(32,719)	(127,902)
Transfers In	0	0	117,090	117,090
Transfers Out	(117,090)	0	0	(117,090)
<i>Total Other Financing Sources (Uses)</i>	<u>(162,294)</u>	<u>0</u>	<u>169,649</u>	<u>7,355</u>
<i>Net Change in Fund Balances</i>	1,201,132	15,212	(124,384)	1,091,960
<i>Fund Balances Beginning of Year</i>	<u>1,063,773</u>	<u>349,620</u>	<u>417,602</u>	<u>1,830,995</u>
<i>Fund Balances End of Year</i>	<u>\$2,264,905</u>	<u>\$364,832</u>	<u>\$293,218</u>	<u>\$2,922,955</u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
**Hamilton County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual (Budgetary Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Property Taxes	\$3,459,580	\$4,009,261	\$4,009,261	\$0
Intergovernmental	1,913,841	2,016,762	2,016,762	0
Interest	49,131	51,773	51,773	0
Tuition and Fees	411,670	433,808	433,808	0
Classroom Materials and Fees	853	899	899	0
Miscellaneous	310,337	335,973	335,973	0
<i>Total Receipts</i>	<u>6,145,412</u>	<u>6,848,476</u>	<u>6,848,476</u>	<u>0</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	2,810,410	2,423,865	2,457,065	(33,200)
Special	148,075	115,678	128,577	(12,899)
Vocational	84,529	73,375	73,375	0
Support Services:				
Pupils	381,696	302,735	334,518	(31,783)
Instructional Staff	499,450	454,531	456,096	(1,565)
Board of Education	19,421	18,596	20,290	(1,694)
Administration	776,773	672,394	674,879	(2,485)
Fiscal	289,986	250,119	252,755	(2,636)
Business	94,442	82,823	81,980	843
Operation and Maintenance of Plant	956,346	847,297	860,756	(13,459)
Pupil Transportation	67,380	58,489	58,489	0
Central	10,150	8,084	8,811	(727)
Operation of Non-Instructional Services	384	333	333	0
Extracurricular Activities	165,129	143,339	143,339	0
<i>Total Disbursements</i>	<u>6,304,171</u>	<u>5,451,658</u>	<u>5,551,263</u>	<u>(99,605)</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(158,759)</u>	<u>1,396,818</u>	<u>1,297,213</u>	<u>(99,605)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the Sale of Assets	9,490	10,000	10,000	0
Refund of Prior Year Receipts	(2,903)	(2,520)	(2,520)	0
Advances In	48,821	42,499	42,499	0
Advances Out	(109,652)	(95,183)	(95,183)	0
Transfers Out	(149,574)	(117,090)	(117,090)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(203,818)</u>	<u>(162,294)</u>	<u>(162,294)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(362,577)	1,234,524	1,134,919	(99,605)
<i>Fund Balance Beginning of Year</i>	964,166	964,166	964,166	0
Prior Year Encumbrances Appropriated	99,607	99,607	99,607	0
<i>Fund Balance End of Year</i>	<u>\$701,196</u>	<u>\$2,298,297</u>	<u>\$2,198,692</u>	<u>(\$99,605)</u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
**Hamilton County**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2005*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 9,903
<i>Total Assets</i>	<u>\$ 9,903</u>
<b>Net Assets</b>	
Unrestricted	\$ 9,903
<i>Total Net Assets</i>	<u>\$ 9,903</u>

See accompanying notes to the basic financial statements

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Lockland Local School District (the District) is located in southwestern Ohio in central Hamilton County. The District includes all of the Villages of Lockland and Arlington Heights and serves an area of approximately 5 square miles.

The District is organized under Sections 2 and 3, Article VI of the constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 572th largest by enrollment among the 613 public and community school districts in the state. It currently operates one elementary school and one comprehensive high school. The District employs 32 non-certified, 62 certified and 7 administrative full-time and part-time employees to provide services to approximately 712 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. The Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. There are no component units of the District.

The following organizations are described due to their relationship to the District.

***Jointly Governed Organization***

**Great Oaks Joint Vocational School (JVS)** - 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. The JVS accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

***Public Entity Risk Pool***

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

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

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Fund Accounting**

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

**Governmental Funds**

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

**General Fund** - This fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

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

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

**Fiduciary Funds**

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

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

**C. Basis of Presentation**

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

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**C. Basis of Presentation- (Continued)**

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

The statement of net assets – cash basis presents the cash basis financial condition of the governmental activities of the District at fiscal year end. The statement of activities – cash basis compares cash disbursements with program cash receipts for each segment of the District’s governmental activities. Cash disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program cash receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program cash receipts, with certain limited exceptions. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the District’s general cash receipts.

**Fund Financial Statements:** During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

**D. Basis of Accounting**

Although required by the Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the 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 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 cash basis of accounting.

**E. Cash Receipts – Exchange and Non-Exchange Transactions**

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**F. Cash Disbursements**

On the cash basis of accounting, disbursements are recognized at the time payments are made.

**G. 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 2005 is as follows:

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

The Certificate may be further amended during the year for projected increases or if the Treasurer identifies decreases in revenue. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels 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 several supplemental appropriations during fiscal year 2005.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**G. Budgets – (Continued)**

9. Unencumbered appropriations lapse at year-end. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level. Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a cash basis, but are not included as part of cash disbursements, and are recorded as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 11 provides a reconciliation of the budgetary and cash basis of accounting.

**H. Cash and Investments**

Cash and cash equivalents consist of the total of the total of fund cash balances of all funds as of June 30, 2005. To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Cash and Cash Equivalents" (both restricted and unrestricted) on the balance sheet.

During fiscal 2005, investments were limited to 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, 2005.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2005 amounted to \$51,773 in the General Fund and \$1,112 in other governmental funds.

An analysis of the Treasurer's investment account at year-end is provided in Note 3.

**I. Inventory**

On the 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.

**J. 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.

**K. Compensated Absences**

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

**L. Long-Term Debt**

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments. Additional information regarding debt can be found in Note 6.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**M. Fund Balances**

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

**N. Net Assets**

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

**O. Interfund Transactions**

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

The statements report interfund loans as advances when paid or repaid. Note 4 lists both operating transfers and advances made during fiscal year 2005. Both interfund transfers and advances are eliminated in the statement of activities.

**P. Statutory Reserves**

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

For fiscal year ended June 30, 2005, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers Compensation, which must be retained for budget stabilization or spent for specified purposes. The balance of the budget stabilization reserve, \$52,082, which did not represent BWC rebates or refunds has been recorded as a reserve in the General Fund and will be used in accordance with Section 5705.13 Revised Code.

Disclosure of reserve information is required by State statute. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition	Budget Stabilization	Totals
Set-Aside Cash Balance as of June 30, 2004	\$ 428,153	\$ 73,698	\$ 52,082	\$ 553,933
Current Year Set-Aside Requirement	91,879	91,879	-	183,758
Qualifying Disbursements	<u>(33,056)</u>	<u>(94,420)</u>	<u>-</u>	<u>(127,476)</u>
Total	<u>486,976</u>	<u>71,157</u>	<u>52,082</u>	<u>610,215</u>
Cash Balance Carried Forward to FY 2005	<u>486,976</u>	<u>71,157</u>	<u>52,082</u>	<u>610,215</u>
Total Reserved Fund Balance	<u>\$ 486,976</u>	<u>\$ 71,157</u>	<u>\$ 52,082</u>	<u>\$ 610,215</u>

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)**

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

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

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

At fiscal year end, the carrying amount of the District’s deposits was \$2,027,255 and the bank balance was \$2,351,016. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance was subject to custodial credit risk as it was covered by a 110% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District’s name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**Investments**

At June 30, 2005, the District’s investment balance was as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Category</u>	<u>Maturity</u>	<u>Investment Concentration</u>	<u>Fair Value</u>
STAR Ohio	AAAm	Unclassified	N/A	100%	\$905,603

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

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

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 4 - INTERFUND TRANSACTIONS**

The following is a reconciliation of the District's operating transfers for fiscal year 2005:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$117,090
Other Governmental Funds		
Non-Major Special Revenue Funds:		
Food Service	93,619	0
Daycare	22,935	0
Athletic Fund	536	0
Total Other Governmental Funds	<u>117,090</u>	<u>0</u>
Total	<u>\$117,090</u>	<u>\$117,090</u>

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

The following is a reconciliation of the District's operating advances for fiscal year 2005:

<u>Fund</u>	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$42,499	\$95,183
Other Governmental Funds		
Non-Major Special Revenue Funds:		
Band Fund	68	68
High School Cheerleaders	3,252	0
Ohio Reads FY05	8,082	0
Career Education Grant	308	617
Alternative Education Challenge	12,253	12,762
Title VI-B	3,732	7,464
Title I	52,145	0
Title V	108	217
Carl Perkins	3,996	3,685
Drug Free Grant	479	479
Preschool	725	725
Title II-D	255	6,702
Total Other Governmental Funds	<u>85,403</u>	<u>32,719</u>
Total	<u>\$127,902</u>	<u>\$127,902</u>

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

**NOTE 5 - 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. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

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

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 5 - PROPERTY TAXES – (Continued)**

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value, except for the personal property of rural electric companies, which is assessed at 50 percent of market value, and railroads, which are assessed at 29 percent. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue that would otherwise have been collected.

The assessed values upon which fiscal year 2005 taxes were collected are as follows:

	<u>2004 Second-Half Collections</u>		<u>2005 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$60,563,100	58.15%	\$60,387,500	60.83%
Public Utility Personal	5,247,820	5.04%	6,295,770	6.34%
Tangible Personal Property	38,345,250	36.81%	32,585,540	32.83%
Totals	<u>\$104,156,170</u>	<u>100.00%</u>	<u>\$99,268,810</u>	<u>100.00%</u>
Tax Rate per \$1,000				
Operations	\$31.89		\$37.71	
Debt Service	5.00		5.60	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20. The Hamilton County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax advances are based on statutory cash flow collection rates. Final settlements are made each February and August.

**NOTE 6 - LONG-TERM DEBT**

**A. Prior-Year Defeasance of Debt**

In prior years, the District defeased certain general obligation bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2005, \$3,370,000 of bonds outstanding are considered defeased.

**B. Debt Service Requirements**

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$400,000	\$124,688	\$524,688
2007	400,000	105,188	505,188
2008	516,135	410,311	926,446
2009	100,596	325,239	425,835
2010	83,268	322,567	405,835
2011-2015	1,200,000	184,208	1,384,208
2016	230,000	0	230,000
Total Principal	<u>\$2,929,999</u>	<u>\$1,472,201</u>	<u>\$4,402,200</u>

The above amortization schedule does not include accreted debt of \$405,552.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

**NOTE 6 - LONG-TERM DEBT – (Continued)**

**C. Changes in Long Term Debt**

During the year ended June 30, 2005, the following were the changes in long-term obligations.

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05	Due Within One Year
<i>General Obligation Bonds:</i>					
Series 2000, Current Interest Refunding Bonds 5.537%, 12/01/15 Maturity	\$3,025,000	\$0	\$400,000	\$2,625,000	\$400,000
Series 2000, Capital Appreciation Refunding Bonds 13.09% (average effective), 12/1/08, 12/1/09, and 12/1/10 Maturity	304,999	0	0	304,999	0
Series 2000, Capital Appreciation Refunding Bonds, Accreted Debt	327,561	77,991	0	405,552	0
Total General Obligation Bonds	<u>\$3,657,560</u>	<u>\$77,991</u>	<u>\$400,000</u>	<u>\$3,335,551</u>	<u>\$400,000</u>

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of a school district should never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The District's voted legal debt margin was \$5,598,642 with an unvoted debt margin of \$99,269 at June 30, 2005.

**NOTE 7 - RISK MANAGEMENT**

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2005, the District purchased from Indiana Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

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

**OSBA Worker's Compensation Group Rating**

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS**

**A. School Employees Retirement System**

The District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Board Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

For fiscal year 2005, plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The 2005 District rate was 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$150,318, \$138,576, and \$96,248, respectively; all of which has been contributed for all three years.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**Plan Options** – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a 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 Defined Benefit 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 the 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 of 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.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS – (Continued)**

***B. State Teachers Retirement System– (Continued)***

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

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit 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 Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$470,499, \$462,603, and \$455,969, 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 the SERS or the STRS have an option to choose Social Security in lieu of SERS/STRS. The Board's liability is 6.2 percent of wages paid.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 9 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$33,607 for fiscal year 2005. STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For the 2005 fiscal year, SERS employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$43,458 during the 2005 fiscal year.

**NOTE 10 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on the basic financial statements of the District at June 30, 2005.

**B. School Funding Decision**

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

**Lockland Local School District**  
**Hamilton County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 11 – BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balance on the 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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and cash basis is as follows:

1. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis).

The following tables summarize the adjustments necessary to reconcile the cash basis statements to the budgetary basis statements for the General Fund.

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
Cash Basis	\$1,201,132
Encumbrances	<u>(66,213)</u>
Budgetary Basis	<u>\$1,134,919</u>

**NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE**

The District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements. The implementation of this accounting principle had no effect on the District’s beginning fund balances.

**NOTE 13-ACCOUNTABILITY AND COMPLIANCE**

Contrary to Ohio Revised Code Section 5705.41(B) the District had disbursements and encumbrances which exceeded appropriations in the General Fund by \$99,605.

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Federal Awards Receipts and Expenditures*  
*For the Fiscal Year Ended June 30, 2005*

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through the Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Donation	NA	10.550	\$0	\$9,649	\$0	\$9,649
School Breakfast Program	05-PU	10.553	34,141	0	34,141	0
National School Lunch Program	LL-P1	10.555	1,785	0	1,785	0
National School Lunch Program	LL-P4	10.555	148,172	0	148,172	0
Total United States Department of Agriculture - Nutrition Cluster			184,098	9,649	184,098	9,649
<b>United States Department of Education</b>						
<i>Passed through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education-Grants to States	6B-PB	84.027	25,000	0	22,762	0
Special Education-Grants to States	6B-SD	84.027	18,750	0	55,642	0
Special Education-Grants to States	6B-SF	84.027	167,046	0	141,859	0
Special Education-Preschool Grants	PG-S1	84.173	3,653	0	3,653	0
Total Special Education Cluster			214,449	0	223,916	0
Title I Grants to Local Educational Agencies	C1-S1	84.010	190,990	0	191,286	0
Safe and Drug-Free Schools and Communities-National Programs	T4-S1	84.184C	5,961	0	451	0
Safe and Drug-Free Schools and Communities-State Grants	DR-S1	84.186	5,916	0	1,684	0
State Grants for Innovative Programs	C2-S1	84.298	2,800	0	3,111	0
Education Technology State Grants	TJ-S1	84.318	6,036	0	11,091	0
Advanced Placement Program	AV-TF	84.330	104	0	0	0
Improving Teacher Quality State Grants	TR-S1	84.367	45,066	0	42,524	0
Total Passed through the Ohio Department of Education			471,322	0	474,063	0
<i>Passed Through Hamilton County Educational Service Center</i>						
English Language Acquisition Grants	N/A	84.365	2,153	0	0	0
<i>Passed Through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education-Basic Grants to States	N/A	84.048	1,008	0	1,580	0
Total United States Department of Education			474,483	0	475,643	0
<b>United States Department of Health and Human Services</b>						
<i>Passed through the Ohio Department of Mentally Retarded and Developmental Disabilities:</i>						
State Children's Insurance Program	N/A	93.767	598	0	598	0
Medical Assistance Program	N/A	93.778	12,335	0	12,335	0
Total United States Department of Health and Human Services			12,933	0	12,933	0
<b>Corporation for National and Community Service</b>						
<i>Passed through the Ohio Department of Education</i>						
Learn and Serve America-School and Community Based Programs	SV-S1	94.004	15,570	0	11,909	0
Total Corporation for National and Community Service			15,570	0	11,909	0
<b>Total Federal Financial Assistance</b>			<u>\$687,084</u>	<u>\$9,649</u>	<u>\$684,583</u>	<u>\$9,649</u>

NA - Pass Through Entity Number is Not Available

N - Direct from the Federal Government

See accompanying notes to the schedule of federal awards receipts and expenditures.

**Lockland Local School District  
Hamilton County**

*Notes to the Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2005*

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited the accompanying financial statements of the Lockland Local School District, Hamilton County, Ohio, (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated March 6, 2006, which was qualified in relation to the Statement of Fiduciary Net Assets – Cash Basis, which noted the District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B) and which noted the District implemented GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-2, 2005-3, 2005-4, 2005-5, and 2005-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, of the reportable conditions described above, we consider items 2005-1, 2005-2, 2005-3, 2005-4, 2005-5, and 2005-8 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-5, 2005-6, 2005-7, and 2005-9.

We also noted certain additional matters that we have reported to management of the District in a separate letter dated March 6, 2006.

Lockland Local School District

Hamilton County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with *Government Auditing Standards*

Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

March 6, 2006

# BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Ohio Society of Certified Public Accountants

## **Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

### **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 are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2005-10.

We also noted certain additional matters that we have reported to management of the District in a separate letter dated March 6, 2006.

### **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Lockland Local School District  
Hamilton County  
Report on Compliance with Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
March 6, 2006

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

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1. SUMMARY OF AUDITOR'S RESULTS

		Unqualified on governmental activities and major funds. Qualified on aggregate remaining fund information
(d)(1)(i)	Type of Financial Statement Opinion	
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster and Title I, CFDA #s 84.027, 84.173 and 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

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

*Finding Number 2005-1*

*Material Weakness – Failure to Maintain Supporting Documentation for Student Activities*

The District did not provide supporting documentation for various extracurricular activities receipts. Furthermore, sales potential forms could not be provided for various extracurricular activities receipts. Without such documentation, it is impracticable to determine whether student activities receipts have been properly accounted for and reported in the accompanying basic financial statements.

These forms should be approved by the Sponsor, Principal, and Superintendent and state the rates to be charged. The Board of Education should enforce their detailed policy for student activities. Failure to require supporting documentation for receipts could facilitate theft and misappropriation of assets. The District should follow the Auditor of State's *Guidelines for Developing Policies for Student Activity Programs* as a basis for their policies.

*Finding Number 2005-2*

*Material Weakness – Failure to Maintain Relevant Payroll Documentation (Personnel Files)*

The District did not keep personnel files current. Failure to keep all relevant payroll documents in a central location could result in incorrect amounts being withheld and paid. Also, it could result in the District not having documentation to support their payroll calculations if an employee should question the amount paid to them.

The District should keep all employee files up to date to prevent any such occurrences.

*Finding Number 2005-3*

*Material Weakness – Failure to Locate Relevant Payroll Documentation (Leave Forms and Timesheets)*

There were instances where employee timesheets or leave forms could not be located. Failure to keep timesheets and leave forms in a central location could result in incorrect amounts being paid to employees. Also, failure to keep leave forms may result in incorrect leave balance accruals for employees, which could further result in employees not receiving proper vacation and sick time, employees being paid extra leave, or incorrect pay outs of leave balances upon severance of employment.

The District should keep all timesheets and leave forms in an organized fashion to prevent any such occurrences.

*Finding Number 2005-4*

*Material Weakness – Failure to Timely Prepare Cash Reconciliations for Operating, AFLAC, and Payroll Bank Accounts*

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been deposited with the District. The District failed to reconcile the operating, AFLAC, and payroll bank accounts during the fiscal year. Lack of timely and accurate reconciliations increase the risk of undetected errors and theft.

The District should properly reconcile these bank accounts monthly and any variances should be immediately investigated and justified. These reconciliations should be prepared by an employee independent of the payroll and non-payroll disbursement functions, respectively, and should also be reviewed and approved by the Treasurer to ensure timeliness, accuracy, and completeness of these reconciliations.

*Finding Number 2005-5*

*Material Citation and Weakness – Failure to Submit Tax Forms 941*

The District transmitted employee federal income tax withholdings for all periods during the fiscal year but only prepared IRS Tax Forms 941 for one of the quarters of the fiscal year. In addition, the District did not file any IRS Tax Forms 941 with the Internal Revenue Service. Failure to file the required forms with the appropriate taxing agencies resulted in non-compliance with federal income tax requirements and has resulted in unnecessary interest and penalties for which the District is liable.

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

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*Finding Number 2005-5*

*Material Citation and Weakness – Failure to Submit Tax Forms 941 (Continued)*

The District should implement procedures to ensure that all required tax deposits are made and the appropriate tax forms are prepared, are accurate and complete, and are submitted in accordance with applicable requirements. Due to the problems noted above, the District should contact all taxing authorities (federal, state and local), the State Teachers Retirement System and the School Employees Retirement System, and obtain documentation to determine what forms have been submitted, what forms remain unsubmitted, whether balances are still owed to these agencies, and to settle these liabilities to ensure accounts are up to date. We also recommend that the District contact the Internal Revenue Service (IRS) taxpayer advocate services to determine whether the IRS can waive any of the penalties and interest incurred by the District.

*Finding Number 2005-6*

*Material Citation – Failure to Properly Encumber Funds*

Ohio Revised Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless the amount to meet the obligations has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirement.

- Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- If the amount involved is less than \$3,000, the Treasurer may authorize payment through the Then and Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

Several instances were noted during the fiscal year where commitments to purchases were made without previous encumbrance of funds and without evidence of Then and Now Certificates.

The District should implement procedures to ensure the above requirement, or an exception to it, is met.

*Finding Number 2005-7*

*Material Citation – Negative Fund Balances*

Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from the General fund was used to cover the expenses of another fund. Several instances of negative funds balances, both material and immaterial, were noted during the fiscal year.

The District should implement procedures to monitor fund balances on a regular basis and consider advancing monies from the general fund to the funds which are anticipated to have a negative balance.

*Finding Number 2005-8*

*Material Weakness – Controls Over Accounting and Reporting*

The District has experienced a number of challenges during fiscal years 2004 and 2005 with a new treasurer being hired and some major accounting and reporting issues as evidenced by the number of findings documented in the preceding paragraphs. The delay in completion of the 2004 and 2005 financial statements was caused primarily by some of the items identified in the previous findings. Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the basic financial statements, and the schedules used to make these management decisions. The

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

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*Finding Number 2005-8*

*Material Weakness – Controls Over Accounting and Reporting (Continued)*

previously mentioned findings indicate a general lack of controls over the financial accounting process which need to be addressed promptly.

The District needs to take the following steps to assist in addressing these issues:

- Designate the finance or audit committee of the Board as having primary responsibility to ensure that all of the findings are properly addressed in a timely manner.
- Organize and hold monthly meetings to discuss and develop an action plan to address all the audit findings, monitor progress on the action plan, and review specific action taken for each of the findings.
- Have the Treasurer, in conjunction with the finance or audit committee, develop a monthly, quarterly and annual check sheet to document key actions performed which are an integral part of the financial accounting and reporting process. The check sheet(s) should include such items as monthly bank reconciliations, monthly financial reports, submission of various tax remittances for federal, state and local governments, filing of appropriate forms for federal, state and local governments, reconciliation of tax remittances with the appropriate tax forms, federal and state grant accounting and reporting, and any other key items. The check sheet(s) should be prepared and/or approved by the Treasurer and/or his designee.
- The finance or audit committee should review and approve the check sheet(s) at their monthly meetings.

*Finding Number 2005-9*

*Material Citation – Failure to File Financial Statements in Accordance with Ohio Administrative Code Requirements*

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

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**Finding Number:** 2005-10  
**CFDA Title and Number:** Special Education-Grants to States – CFDA # 84.027  
Special Education-Preschool Grants – CFDA # 84.173  
**Federal Agency:** United States Department of Education  
**Pass-Through Agency:** Ohio Department of Education

*Non-Compliance Citation – Failure to Report Actual Financial Activity on Project Cash Requests*

Cash Management – When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, the recipient must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. The Ohio Department of Education requires the District to submit a project cash request when the District is requesting a drawdown of monies. We noted one instance for each of the above mentioned grants where the District’s actual expenditures and cash balances per its project cash requests did not agree to their accounting ledgers and project cash requests’ expenditures and cash balances were misstated. Although the differences noted were not significant and the District kept the cash balances in each of the above mentioned grants to a minimum, the misstating of expenditures and cash balances results in inaccurate and incomplete reporting of federal award activity. Inappropriate accumulation of cash balances could occur as the Ohio Department of Education could adjust final payments should the District not require all funds awarded. It appears that the reason for the differences was due to estimates being used rather than actual expenditure data.

The District should implement procedures to ensure that it is accurately and completely reporting federal award activity on its project cash requests.

**Lockland Local School District**  
**Hamilton County**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133 Section .505*  
*For the Fiscal Year Ended June 30, 2005*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Finding for Adjustment – Nutrition Federal Program	No	The finding for adjustment was not made during fiscal year 2004 or 2005. We verified that the correction was made in March 2006. Additional finding related to this matter for fiscal year 2005 was made in the management letter. Correction for this management letter finding was also made in March 2006.
2004-1	Failure to Maintain Supporting Documentation for Student Activities	No	Reissued as 2005-1
2004-2	Failure to Maintain Relevant Payroll Documentation (Personnel Files)	No	Reissued as 2005-2
2004-3	Failure to Maintain Relevant Payroll Documentation (Leave Forms and Timesheets)	No	Reissued as 2005-3
2004-4	Failure to Properly Reconcile Athletic Fund Bank Account	Yes	
2004-5	Failure to Timely Prepare Cash Reconciliations for Operating, Payroll and AFLAC Bank Accounts	No	Reissued as 2005-4
2004-6	Failure to Submit Tax Forms 941	No	Reissued as 2005-5
2004-7	Failure to Properly Encumber Funds	No	Reissued as 2005-6
2004-8	Negative Fund Balances	No	Reissued as 2005-7
2004-9	Controls Over Accounting and Reporting	No	Reissued as 2005-8
2004-10	Failure to File Financial Statements in Accordance with Ohio Administrative Code Requirements (GAAP)	No	Reissued as 2005-9
2004-11	Failure to Report Actual Financial Activity on Project Cash Requests	No	Reissued as 2005-10
2004-12	Failure to Submit Final Expenditure Report Timely in Accordance with Requirements	Yes	
2004-13	Failure to Submit a Single Audit Report with the Required Government Agencies in Accordance with Federal Requirements	Yes	

**Lockland Local School District**  
**Hamilton County**  
*Corrective Action Plan*  
*For the Fiscal Year Ended June 30, 2005*

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-1	<p><b>Material Weakness – Failure to Maintain Supporting Documentation for Student Activities</b></p> <p><b>Response</b>            The District will emphasize to the student activities sponsors, building principals and Athletic Director through meetings and constant reminders that they must have a sales potential form completed for all fundraising activities before the event.</p>	Immediate enforcement	Michael Lau
2005-2	<p><b>Material Weakness – Failure to Maintain Relevant Payroll Documentation (Personnel Files)</b></p> <p><b>Response</b>            The District has made great strides in keeping personnel files up to date and filed in an organized and central location. The district is in the process of developing detailed check lists to ensure that new hire employees will have all the required documentation completed and turned back into the Treasurer’s Office before issuing a payroll direct deposit payment. An internal audit is being conducted on all active personnel files for completeness.</p>	This is a work in progress. This will be corrected in a timely manner.	Michael Lau
2005-3	<p><b>Material Weakness - Failure to Locate Relevant Payroll Documentation (Leave Forms and Timesheets)</b></p> <p><b>Response</b>            The District has made great strides in keeping timesheets and leave forms in an organized and in a central location. Improvements have been made responding to requests for accumulated sick leave balances from former employees. The District is in the process of auditing all leave balances and will make adjustments. The district will retain back up documentation for a proper audit trail.</p>	This is a work in progress. This will be corrected in a timely manner.	Michael Lau
2005-4	<p><b>Material Weakness – Failure to Timely Prepare Cash Reconciliations for AFLAC, Operating and Payroll Accounts</b></p> <p><b>Response</b>            The District is properly reconciling these accounts on a monthly basis and variances are immediately investigated and justified. The monthly reconciliation will be presented to the Finance Committee for review and approval.</p>	This has been corrected. Mr. Larry Loos has developed a comprehensive reconciliation process for the AFLAC, Operating and Payroll Accounts.	Michael Lau

**Lockland Local School District**  
**Hamilton County**  
*Corrective Action Plan*  
*For the Fiscal Year Ended June 30, 2005*

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Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-5	<p><b>Material Citation and Weakness – Failure to Submit Tax Forms 941. The district only prepared IRS Tax Forms 941 for one of the quarters the fiscal year. However, the District did not file any 941 forms with the Internal Revenue Service.</b></p> <p><b>Response</b>  All 941 forms for fiscal years 2003, 2004 and 2005 have been sent to the IRS by certified registered return receipt mail. As of today we know the IRS has received the forms for 2003, 2004 and 2005 since they have signed that they have received them. We should hear something from the IRS on the status of the 941 in the next six weeks or so. The district will implement procedures to ensure that all required tax deposits are made and the appropriate tax forms are prepared, are accurate and complete, and are submitted in accordance with applicable requirements. Recent personnel changes in the treasurer’s office will help facilitate this non-compliance citation. The district is working to get waiver on IRS penalties and hopefully the district can also get relief from assessed interest charges since monies owed to the IRS regarding Lockland Schools Federal Income Tax were sent in for the period in question. The District will consider using a taxpayer advocate services regarding these and other tax issues from fiscal years prior to fiscal year 2003 where the District has been assessed and paid penalties and accrued interest. The District is also working with the Ohio Department of Taxation on any unresolved tax issues.</p> <p>The Village of Lockland through Mayor James Brown waived penalties and interest for the Regional Income Tax Authority (RITA).</p>	This was corrected during the current fiscal year.	Michael Lau

**Lockland Local School District**  
**Hamilton County**  
*Corrective Action Plan*  
For the Fiscal Year Ended June 30, 2005

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Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-6	<p><b>Material Citation – Failure to Properly Encumber Funds</b>  <b>Ohio Revised Code Section 5705.51(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless the amount to meet obligations has been lawfully appropriated for such purpose... and free from encumbrances.</b></p> <p><b>Response</b>  The District will start to use the “Then and Now Certificate” stamp for purchases that are made without prior issuance of a contract or purchase order. Purchases over a certain agreed amount i.e. \$1,500 will be taken to the board of education for approval. If the amount involves less than the agreed amount, the Treasurer may authorize payment through the Then and Now Certificate without affirmation of the board of education, if such expenditure is otherwise valid.</p> <p>The Then and Now Certificate stamp states:  “It is hereby certified that both at the time of the making of this contract or order and at the date of execution of this certificate, the amount of \$__ required to pay this contract or order has been appropriated for the purpose of this contract or order and is in the treasury or in the process of collection to the credit of the Fund free from any previous encumbrance.”  Ohio Revised Code states that amounts involving \$3,000 or more should be presented to the board of education by resolution within 30 days from the receipt of such certificate.</p>	We are working toward correcting this.	Michael Lau
2005-7	<p><b>Material Citation – Negative Fund Balances</b></p> <p><b>Response</b>  Negative balances that occur in certain funds i.e. 006 food service fund, ultimately will be resolved with advances and transfer from the general fund.</p>	We are working toward reducing this occurrence.	Michael Lau
2005-8	<p><b>Material Weakness – Controls Over Accounting and Reporting</b></p> <p><b>Response</b>  The District Finance Committee has primary responsibility to ensure that all of the findings are properly addressed in a timely manner. Monthly, quarterly and annual check lists will be developed and reviewed by the board of education as an integral part of the financial accounting and reporting process. The finance committee and board of education will review certain reports such as monthly bank reconciliation.</p>	This is a work in progress and will be addressed.	Michael Lau

**Lockland Local School District**  
**Hamilton County**  
*Corrective Action Plan*  
*For the Fiscal Year Ended June 30, 2005*

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Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-9	<p><b>Non-Compliance Citation - Ohio Administrative Code § 117-2-03(B) -Not reporting GAAP.</b></p> <p><b>Response</b>            The District believes reporting on the cash basis of accounting is more cost efficient.</p>	Not applicable.	Not applicable.
2005-10	<p><b>Non-Compliance Citation – Failure to Report Actual Financial Activity on Project Cash Requests</b></p> <p><b>Response</b>            The District will implement procedures to ensure that it is accurately and completely reporting federal award activity on its projected cash requests to ensure the fair presentation of awards and to aid in the monitoring of inappropriate accumulation of funds.</p>	This is a work in progress. This will be corrected in a timely manner.	Michael Lau



**Auditor of State  
Betty Montgomery**

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**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  
JUNE 13, 2006**