

LOCKLAND LOCAL SCHOOL DISTRICT

Basic Financial Statements
Year Ended June 30, 2008
with Independent Auditors' Report





Mary Taylor, CPA
Auditor of State

Board of Education
Lockland Local School District
210 N. Cooper Ave
Lockland, Ohio 45215

We have reviewed the *Independent Auditors' Report* of the Lockland Local School District, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 29, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Lockland Local School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lockland Local School District (the School District) as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lockland Local School District as of June 30, 2008, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2009 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

160 north breiel blvd.
middletown, oh 45042

www.cshco.com
p. 513.424.5000
f. 513.422.7882

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

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

Clark, Schaefer, Trachtel & Co.

Middletown, Ohio
July 30, 2009

Lockland Local School District
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

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, 2008. 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 2008 are as follows:

Overall:

- For governmental activities, net assets increased \$1.2 million, which represents a 32 percent increase from 2007.
- General receipts accounted for \$7.5 million or 73 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$2.8 million or 27 percent of total governmental receipts of \$10.3 million.
- The District had \$9 million in disbursements related to governmental activities; only \$2.8 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 \$7.5 million were adequate to provide for these programs, resulting in an increase in net assets of \$1.2 million.
- The District's major funds were the general fund and debt service fund. All governmental funds had total revenues of \$10.6 million and expenditures of \$9.3 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's balance increased by \$1.2 million for fiscal year 2008.

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.

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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 2008?" 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 between 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 2008 compared to 2007.

	2008 Governmental Activities	2007 Governmental Activities
	<u> </u>	<u> </u>
Assets:		
Current and Other Assets	\$5,005,965	\$3,805,534
<i>Total Assets</i>	<u><u>\$5,005,965</u></u>	<u><u>\$3,805,534</u></u>
Net Assets:		
Restricted	\$1,608,657	\$1,495,200
Unrestricted	<u>3,397,308</u>	<u>2,310,334</u>
<i>Total Net Assets</i>	<u><u>\$5,005,965</u></u>	<u><u>\$3,805,534</u></u>

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The table below shows the net changes in net assets for fiscal year 2008 compared to 2007.

Table 2

	2008	2007	Increase (Decrease)
	Governmental Activities	Governmental Activities	
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$ 1,140,155	\$ 1,127,877	\$ 12,278
Operating Grants and Contributions	1,635,698	1,456,585	179,113
Total Program Receipts	2,775,853	2,584,462	191,391
General Receipts:			
Property Taxes	4,489,968	4,144,765	345,203
Grants and Entitlements	2,623,778	2,274,902	348,876
Investment Earnings	202,645	132,142	70,503
Refund of Prior Year Expenditures	76,693	67,521	9,172
Miscellaneous	99,007	51,687	47,320
Proceeds from Sale of Assets	-	350	(350)
Total General Receipts	7,492,091	6,671,367	820,724
Total Receipts	10,267,944	9,255,829	1,012,115
Disbursements:			
Instruction:			
Regular	3,623,802	3,570,110	53,692
Special	472,526	382,977	89,549
Vocational	61,313	59,846	1,467
Other	3,315	1,740	1,575
Support Services:			
Pupils	418,476	442,540	(24,064)
Instructional Staff	793,408	623,392	170,016
Board of Education	28,000	24,251	3,749
Administration	963,254	723,527	239,727
Fiscal	295,515	328,409	(32,894)
Business	78,513	84,081	(5,568)
Operation and Maintenance of Plant	1,062,480	957,778	104,702
Pupil Transportation	53,391	34,046	19,345
Central	21,623	20,437	1,186
Operation of Non-Instructional Services	2,582	7,771	(5,189)
Operation of Food Services	420,289	456,523	(36,234)
Extracurricular Activities	288,415	234,806	53,609
Principal Retirement, Interest and Fiscal Charges	480,611	505,188	(24,577)
Total Disbursements	9,067,513	8,457,422	610,091
Changes in Net Assets	1,200,431	798,407	402,024
Beginning Net Assets	3,805,534	3,007,127	
Ending Net Assets	\$ 5,005,965	\$ 3,805,534	

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

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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 44 percent of revenue for governmental activities for the District in fiscal year 2008, a slight increase from prior years.

Governmental Activities

Net assets of the District's governmental activities increased by \$1.2 million. The governmental disbursements of \$9 million were offset by program receipts of \$2.8 million and general receipts of \$7.5 million. Program receipts supported 27% 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 85% 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

	2008		2007	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$4,160,956	\$2,038,683	\$4,014,673	\$1,903,197
Support Services:				
Pupils and Instructional Staff	1,211,884	930,273	1,065,932	893,058
Board of Education, Administration, Fiscal and Business	1,365,282	1,360,979	1,160,268	1,155,737
Operation and Maintenance of Plant	1,062,480	1,060,759	957,778	957,778
Pupil Transportation	53,391	53,391	34,046	34,046
Central	21,623	10,553	20,437	20,437
Operation of Non-instructional Services	2,582	2,582	7,771	7,771
Operation of Food Services	420,289	118,263	456,523	209,376
Extracurricular Activities	288,415	235,566	234,806	186,372
Principal, Interest and Fiscal Charges	480,611	480,611	505,188	505,188
Total Disbursements	\$9,067,513	\$6,291,660	\$8,457,422	\$5,872,960

The dependence upon general tax receipts and unrestricted grants and entitlements for governmental activities is apparent. Over 49 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.

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The District's Funds

Information about the District's major funds starts on page 12. These funds are accounted for using the cash basis of accounting. The general fund had \$7.8 million in receipts and \$6.7 million in disbursements. The general fund's fund balance increased to \$4.2 million from \$3.1 million. The debt service fund had \$0.6 million in receipts and \$0.5 million in disbursements. The debt service fund balance increased from \$0.46 million to \$0.52 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 2008, 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 \$7.8 million, an increase from original estimates of \$6.2 million due to an increase in collections of property taxes than originally anticipated. Original and final budgeted expenditures were equal. Total actual disbursements and other financing uses on the budget basis (cash outlays plus encumbrances) were \$6.7 million, \$1.2 million under 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, 2008, the District had \$1,430,000 in general obligation bonds outstanding. The District also had \$873,000 in capital appreciation bonds outstanding at fiscal year end. These bonds are accreted each year until due. The amount due within one year is \$370,000. See Note 6 to the basic financial statements for more information regarding debt obligations.

Current Financial Related Activities

The District had approximately \$3.3 million in unrestricted net assets on the cash basis as of June 30, 2008. 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 Larry McDonough, Interim 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, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,168,010
Restricted Cash	837,955
<i>Total Assets</i>	\$ 5,005,965
 Net Assets	
Restricted for:	
Capital Projects	\$ 3,772
Debt Service	523,619
Set Asides	837,955
Other Purposes	243,311
Unrestricted	3,397,308
<i>Total Net Assets</i>	\$ 5,005,965

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, 2008

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 3,623,802	\$ 833,635	\$ 1,129,771	\$ (1,660,396)
Special	472,526	-	158,005	(314,521)
Vocational	61,313	-	-	(61,313)
Other	3,315	-	862	(2,453)
Support Services:				
Pupils	418,476	-	7,395	(411,081)
Instructional Staff	793,408	188,736	85,480	(519,192)
Board of Education	28,000	-	-	(28,000)
Administration	963,254	-	4,303	(958,951)
Fiscal	295,515	-	-	(295,515)
Business	78,513	-	-	(78,513)
Operation and Maintenance of Plant	1,062,480	-	1,721	(1,060,759)
Pupil Transportation	53,391	-	-	(53,391)
Central	21,623	-	11,070	(10,553)
Operation of Non-Instructional Services	2,582	-	-	(2,582)
Operation of Food Services	420,289	64,935	237,091	(118,263)
Extracurricular Activities	288,415	52,849	-	(235,566)
Principal Retirement, Interest and Fiscal Charges	480,611	-	-	(480,611)
Total Governmental Activities	\$ 9,067,513	\$ 1,140,155	\$ 1,635,698	(6,291,660)
General Receipts				
Property Taxes Levied for:				
				4,011,656
				478,312
				2,623,778
				76,693
				202,645
				99,007
				<u>7,492,091</u>
				1,200,431
				<u>3,805,534</u>
				<u>\$ 5,005,965</u>

See accompanying notes to the basic financial statements

Lockland Local School District
Hamilton County
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2008

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,397,308	\$ 523,619	\$ 247,083	\$ 4,168,010
Restricted cash	837,955	-	-	837,955
<i>Total Assets</i>	<u>\$ 4,235,263</u>	<u>\$ 523,619</u>	<u>\$ 247,083</u>	<u>\$ 5,005,965</u>
Fund Balances				
Reserved for Encumbrances	\$ 27,934	-	\$ 50,211	\$ 78,145
Reserved for Capital Acquisitions	195,597	-	-	195,597
Reserved for Textbooks	642,358	-	-	642,358
Unreserved:				
Designated, Reported in:				
Budget Stabilization	120,509	-		120,509
Undesignated, Reported in:				
General Fund	3,248,865	-	-	3,248,865
Special Revenue Funds	-	-	193,100	193,100
Debt Service Fund	-	\$ 523,619	-	523,619
Capital Projects Funds	-	-	3,772	3,772
<i>Total Fund Balances</i>	<u>\$ 4,235,263</u>	<u>\$ 523,619</u>	<u>\$ 247,083</u>	<u>\$ 5,005,965</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, 2008

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$ 4,011,656	\$ 478,312	-	\$ 4,489,968
Intergovernmental	2,550,394	72,903	\$ 1,636,179	4,259,476
Interest	201,683	-	962	202,645
Tuition and Fees	833,241	-	188,736	1,021,977
Extracurricular Activities	-	-	52,849	52,849
Classroom Materials and Fees	394	-	-	394
Food Services	-	-	64,935	64,935
Miscellaneous	68,864	-	30,143	99,007
Total Receipts	7,666,232	551,215	1,973,804	10,191,251
Disbursements				
Current:				
Instruction:				
Regular	2,813,440	-	810,362	3,623,802
Special	301,287	-	171,239	472,526
Vocational	61,313	-	-	61,313
Other	-	-	3,315	3,315
Support Services:				
Pupils	403,191	-	15,285	418,476
Instructional Staff	239,337	-	554,071	793,408
Board of Education	28,000	-	-	28,000
Administration	920,721	-	42,533	963,254
Fiscal	285,865	9,650	-	295,515
Business	78,513	-	-	78,513
Operation and Maintenance of Plant	1,060,759	-	1,721	1,062,480
Pupil Transportation	53,391	-	-	53,391
Central	20,041	-	1,582	21,623
Operation of Non-Instructional Services	410	-	2,172	2,582
Operation of Food Services	-	-	420,289	420,289
Extracurricular Activities	145,575	-	142,840	288,415
Debt Service:				
Principal Retirement, Interest and Fiscal Charges	-	480,611	-	480,611
Total Disbursements	6,411,843	490,261	2,165,409	9,067,513
Excess of Receipts Over (Under) Disbursements	1,254,389	60,954	(191,605)	1,123,738
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	76,730	-	-	76,730
Refund of Prior Year Receipts	-	-	(37)	(37)
Advances In	60,000	-	36,878	96,878
Advances Out	(36,878)	-	(60,000)	(96,878)
Transfers In	-	-	222,848	222,848
Transfers Out	(194,507)	-	(28,341)	(222,848)
Total Other Financing Sources (Uses)	(94,655)	-	171,348	76,693
Net Change in Fund Balances	1,159,734	60,954	(20,257)	1,200,431
Fund Balances Beginning of Year	3,075,529	462,665	267,340	3,805,534
Fund Balances End of Year	\$ 4,235,263	\$ 523,619	\$ 247,083	\$ 5,005,965

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, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$ 2,993,699	\$ 4,033,729	\$ 4,011,656	(22,073)
Intergovernmental	2,136,087	2,562,472	2,550,394	(12,078)
Interest	168,920	202,638	201,683	(955)
Tuition and Fees	697,882	837,187	833,241	(3,946)
Classroom Materials and Fees	330	396	394	(2)
Miscellaneous	57,677	69,190	68,864	(326)
<i>Total Receipts</i>	<u>6,054,595</u>	<u>7,705,612</u>	<u>7,666,232</u>	<u>(39,380)</u>
Disbursements				
Current:				
Instruction:				
Regular	3,172,700	3,008,349	2,817,553	190,796
Special	294,916	372,825	301,287	71,538
Vocational	72,675	71,955	64,540	7,415
Support Services:				
Pupils	454,012	446,360	403,191	43,169
Instructional Staff	271,374	317,316	240,997	76,319
Board of Education	32,731	30,397	29,067	1,330
Administration	1,036,810	780,792	920,751	(139,959)
Fiscal	334,616	324,972	297,160	27,812
Business	88,409	137,155	78,513	58,642
Operation and Maintenance of Plant	1,181,462	1,395,358	1,067,301	328,057
Pupil Transportation	60,121	66,895	53,391	13,504
Central	22,567	31,757	20,041	11,716
Operation of Non-Instructional Services	462	1,050	410	640
Extracurricular Activities	160,410	147,801	145,575	2,226
<i>Total Disbursements</i>	<u>7,183,265</u>	<u>7,132,982</u>	<u>6,439,777</u>	<u>693,205</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,128,670)</u>	<u>572,630</u>	<u>1,226,455</u>	<u>653,825</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	64,265	77,094	76,730	(364)
Advances In	50,253	60,284	60,000	(284)
Advances Out	(41,526)	(60,493)	(36,878)	23,615
Transfers Out	(222,539)	(253,855)	(194,507)	59,348
<i>Total Other Financing Sources (Uses)</i>	<u>(149,547)</u>	<u>(176,970)</u>	<u>(94,655)</u>	<u>82,315</u>
<i>Net Change in Fund Balance</i>	(1,278,217)	395,660	1,131,800	736,140
<i>Fund Balance Beginning of Year</i>	3,009,618	3,009,618	3,009,618	-
<i>Prior Year Encumbrances Appropriated</i>	65,911	65,911	65,911	-
<i>Fund Balance End of Year</i>	<u>\$ 1,797,312</u>	<u>\$ 3,471,189</u>	<u>\$ 4,207,329</u>	<u>\$ 736,140</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, 2008

	<u>Agency</u>
Assets	
Cash and Cash Equivalents	\$ 5,575
<i>Total Assets</i>	<u>\$ 5,575</u>
Net Assets	
Unrestricted	\$ 5,575
<i>Total Net Assets</i>	<u>\$ 5,575</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, 2008

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 employs 31 non-certified, 64 certified employees to provide services to approximately 727 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 Institute of Technology and Career Development - The vocational school is a separate body politic and corporate established by the Ohio Revised Code to provide vocational and special education needs of the students. The Institute accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District. To obtain financial information, write to Great Oaks at 3254 E Kemper Rd. Cincinnati, OH 45241.

Public Entity Risk Pool

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

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

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008

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 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 non-major 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, 2008

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 2008 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 2008.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations that reallocated, increased, or decreased the original appropriated amounts. The Board legally enacted several supplemental appropriations during fiscal year 2008.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 provide 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, 2008. 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 2008, 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, 2008.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2008 amounted to \$201,683 in the General Fund and \$962 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, 2008

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 and textbooks.

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 list both operating transfers and advances made during fiscal year 2008. Both inter-fund 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.

Disclosure of reserve information is required by State statute. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition	Totals
Set-Aside Cash Balance as of June 30, 2007	\$ 637,064	\$ 128,131	\$ 765,195
Current Year Set-Aside Requirement	107,133	107,133	214,266
Qualifying Disbursements	(101,839)	(39,667)	(141,506)
Total	642,358	195,597	837,955
Cash Balance Carried Forward to FY 2009	642,358	195,597	837,955
Total Reserved Fund Balance	<u>\$ 642,358</u>	<u>\$ 195,597</u>	<u>\$ 837,955</u>

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 \$4,564,033 and the bank balance was \$4,635,564. Of the bank balance, \$200,000 was covered by federal depository insurance. The remaining balance was subject to custodial credit risk as it was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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, 2008, the District's investment balance was as follows:

Description	Credit Rating	Category	Maturity	Investment Concentration	Fair Value
STAR Ohio	AAAm	Unclassified	N/A	100%	\$447,318

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

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

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

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

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2008:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 194,507
Other Governmental Funds:		
Non-Major Special Revenue Funds:		
Food Service	114,834	-
School Support	30,903	-
Latchkey	-	28,341
Athletic Fund	77,111	-
Total Other Governmental Funds	<u>222,848</u>	<u>28,341</u>
Total	<u>\$ 222,848</u>	<u>\$ 222,848</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 2008:

<u>Fund</u>	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$ 60,000	\$ 36,878
Other Governmental Funds		
Non-Major Special Revenue Funds:		
Alternative Education	3,268	-
Title VI-B	8,183	-
Title I	5,770	10,000
Title V	837	-
Preeschool	2,205	-
Title II-A	2,349	-
Title II-D	1,650	-
Reading First	12,616	50,000
Total Other Governmental Funds	<u>36,878</u>	<u>60,000</u>
Total	<u>\$ 96,878</u>	<u>\$ 96,878</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.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 5 - PROPERTY TAXES – (Continued)

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.

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 2008 taxes were collected are as follows:

	2007 Second-Half Collections		2008 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 66,267,970	69.72%	\$ 32,182,059	45.29%
Public Utility Personal	6,165,260	6.49%	6,295,770	8.86%
Tangible Personal Property	22,617,300	23.80%	32,585,540	45.85%
Totals	\$ 95,050,530	100.00%	\$ 71,063,369	100.00%

Tax Rate per \$1,000

Operations	\$38.22	\$34.66
Debt Service	5.60	5.30

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, 2008, \$3,370,000 of bonds outstanding are considered defeased.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 6 - LONG-TERM DEBT - (Continued)

B. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2008 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 370,000	\$ 324,700	\$ 694,700
2010	350,000	325,239	675,239
2011	330,000	322,567	652,567
2012	300,000	68,110	368,110
2013	300,000	52,510	352,510
2014-2016	830,000	63,588	893,588
Total	<u>\$ 2,480,000</u>	<u>\$ 1,156,714</u>	<u>\$ 3,636,714</u>

The above amortization schedule includes \$177,000 of accretion on capital appreciation bonds that has not been recognized as of June 30, 2008.

C. Changes in Long Term Debt

During the year ended June 30, 2008, the following were the changes in long-term obligations.

	Balance 6/30/2007	Additions	Deletions	Balance 6/30/2008	Due Within One Year
<i>General Obligation Bonds:</i>					
Series 2000, Current Interest Refunding Bonds 5.537%, 12/01/15 Maturity	\$ 1,825,000	-	\$ 395,000	\$ 1,430,000	\$ 370,000
Series 2000, Capital Appreciation Refunding Bonds 13.09% (average effective), 12/01/08, 12/01/09, and 12/01/10 Maturity	788,522	84,478	-	\$ 873,000	-
Total General Obligation Bonds	<u>\$ 2,613,522</u>	<u>\$ 84,478</u>	<u>\$ 395,000</u>	<u>\$ 2,303,000</u>	<u>\$ 370,000</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 \$4,700,800 with an unvoted debt margin of \$71,063 at June 30, 2008.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 2008, the District purchased from Indiana Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

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

OSBA Worker's Compensation Group Rating

For fiscal year 2008, 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.

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 2008, 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 2007 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, 2008, 2007, and 2006 were \$161,220, \$144,684, and \$163,029, 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.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS - (Continued)

B. State Teachers Retirement System-- (Continued)

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.

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.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS - (Continued)

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, 2008, 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, 2008, 2007, and 2006 were \$504,540, \$520,404, and \$528,647, 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.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$48,136, \$43,198 and \$48,678, respectively; 100 percent has been contributed percent for fiscal all years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund.

Lockland Local School District
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,600, \$6,821 and \$7,686 respectively; 100 percent has been contributed for all fiscal years.

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$38,811, \$40,031 and \$40,665, respectively; 100 percent has been contributed for all fiscal years.

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, 2008.

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, 2008

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</u>
	<u>Fund</u>
Cash Basis	\$ 1,159,734
Encumbrances	<u>(27,934)</u>
Budgetary Basis	<u>\$ 1,131,800</u>

NOTE 12 – COMPLIANCE

Contrary to the Ohio Revised Code § 177.38 and Ohio Administrative Code §117-03(B), the District does not prepare its financial statements in accordance with accounting principals generally accepted in the United States of America.

In the General fund, the Administration function had actual expenditures plus encumbrances higher than the final budgeted expenditures.

**Lockland Local School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:				
<i>(Passed through Ohio Department of Education)</i>				
Food Donation	N/A	10.550	\$ 12,000	12,000
Nutrition Cluster:				
School Breakfast Program	05PU	10.553	68,673	68,673
National School Lunch Program	LLP4	10.555	156,923	156,923
Nutrition Cluster Total			<u>225,596</u>	<u>225,596</u>
Total U.S. Department of Agriculture			<u>237,596</u>	<u>237,596</u>
U.S. Department of Education:				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1 - 2007	84.010	38,848	37,091
Title I Grants to Local Educational Agencies	C1S1 - 2008	84.010	196,609	202,379
			<u>235,457</u>	<u>239,470</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF - 2007	84.027	21,190	25,873
Special Education - Grants to States	6BSF - 2008	84.027	135,914	144,097
Special Education - Preschool Grants	PGS1 - 2008	84.173	900	3,105
Special Education Cluster Total			<u>158,004</u>	<u>173,075</u>
Safe and Drug-Free Schools and Communities - State Grants	DRS1 - 2008	84.186	4,303	4,303
State Grants for Innovative Programs	C2S1 - 2008	84.298	342	1,180
Education Technology State Grants	TJS1 - 2008	84.318	714	2,364
Reading First State Grants	RSS1 - 2007	84.357	113,189	100,100
Reading First State Grants	RSS1 - 2008	84.357	298,954	311,568
			<u>412,143</u>	<u>411,668</u>
Improving Teacher Quality State Grants	TRS1 - 2008	84.367	36,527	40,368
Total Passed through the Ohio Department of Education			<u>847,490</u>	<u>872,428</u>
<i>(Passed Through Hamilton County Educational Service Center)</i>				
English Language Acquisition Grants	2008	84.365	3,944	-
<i>(Passed Through Great Oaks Institute of Technology and Career Development)</i>				
Vocational Education - Basic Grants to States	2008	84.048	2,395	1,913
Total U.S. Department of Education			<u>853,829</u>	<u>874,341</u>
Total Federal Financial Assistance			<u>\$ 1,091,425</u>	<u>1,111,937</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DONATION

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

NOTE C - NUTRITION CLUSTER

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

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

To the Board of Education
Lockland Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lockland Local School District (the School District) as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 30, 2009, wherein we noted that the School District has prepared its financial statements using a cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency labeled as 2008-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

160 north breiel blvd.
middletown, oh 45042

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3, and 2008-4.

We noted certain matters that we reported to management of the School District, in a separate letter dated July 30, 2009.

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

This report is intended solely for the information 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 those specified parties.

Clark, Schaefer, Trachtel & Co.

Middletown, Ohio
July 30, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Lockland Local School District:

Compliance

We have audited the compliance of Lockland Local School District (the School District) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Lockland Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-5.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described above to be material weakness.

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

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

Clark Scharfu, Hackett & Co.

Middletown, Ohio
July 30, 2009

**LOCKLAND LOCAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Type of auditors' report issued on compliance for major programs:	unqualified
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Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	yes
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Identification of major programs:

Nutrition Cluster (CFDA 10.553 and 10.555)
Reading First State Grants (CFDA 84.357)

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

2008-1 - Controls over Accounting and Reporting

The School District has experienced a number of challenges during fiscal years 2004, 2005, 2006, 2007 and 2008 with some major accounting and reporting issues as evidenced by the number of findings documented in this schedule. Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. The previously mentioned findings indicate a general lack of controls over the financial accounting processes and record keeping within the district which need to be addressed promptly.

The School 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.
- 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.

Management Response: The district finance committee meets regularly during the school to discuss issues of finance, audit, controls and items of a general interest to the committee. As a result of prior findings repeated in the 2008 audit, check lists integral to the district's operations will be reviewed by the new CFO and presented to the finance committee for approval. Reconciliations, financial reports, regulatory filings will be presented to the finance committee for review.

2008-2 – GAAP-Basis Financial Reports

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

Management Response: It is not cost effective for the district to prepare GAAP statements at this time due to tight budget considerations and lack of staffing. The district will review the GAAP reporting requirements for FY2010 as it looks to possible indebtedness to fund campus renovations or replacement.

2008-3 - Expenditures That Exceeded Appropriation

Per Ohio Revised Code Section 5705.41(B), no subdivision is to expend money unless it has been appropriated. The School District had several instances in which expenditures and encumbrances in various funds that exceeded their appropriations.

Management Response: The district will regularly review appropriations and resources to ensure that they are sufficient and exceed expenditures and encumbrances. Modifications, if required, will be presented to the board for approval and filed periodically with the county budget commission.

2008-4 - Certificate of Estimated Resources Compliance

Ohio Revised Code Section 5705.36 stipulates that total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation. During our testing of compliance with budgetary requirements, we noted several funds which had appropriations in excess of estimated resources as of January 31, 2008. We recommend the School District request increased amended certificates from the County Budget Commission, as needed, whenever the appropriation or supplemental appropriation exceeds the current certificate of estimated resources.

Management Response: District will review total resources on a regular basis to ensure that they are sufficient and exceed desired appropriations. Modifications, if required, will be presented to the board for approval and file periodically with the county budget commission.

Section III - Federal Award Findings and Questioned Costs

2008-1 - Controls over Accounting and Reporting

A repeat of the finding above under Section II – Financial Statement Findings.

2008-5 - Data Collection Form Late Submission

The Federal Audit Clearinghouse requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. During the current year audit, it was noted that the data collection form for fiscal year ended June 30, 2007 was not submitted until February 10, 2009, which is after the required due date and the School District did not obtain an extension of time to file from the cognizant or oversight agency.

Management Response: This will continue to be an issue with the district until the audits are caught up.

Lockland Local School District
 Schedule of Prior Audit Findings
 Year Ended June 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Current Status
2007-1	The School District did not keep personnel files current. Failure to keep all relevant payroll documents current could result in incorrect amounts being withheld and paid. Also, it could result in the School District not having documentation to support their payroll calculations if an employee should question the amount paid to them. The School District should keep all employee files up to date to prevent any such occurrences.	Yes	This finding was not noted during the current year audit testing.
2007-2	The School District has experienced a number of challenges during fiscal years 2004, 2005, 2006 and 2007 with some major accounting and reporting issues as evidenced by the number of findings documented in this schedule. Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. The previously mentioned findings indicate a general lack of controls over the financial accounting process which need to be addressed promptly.	No	Repeated as current year finding 2008-1
2007-3	Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with the cash basis of accounting. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.	No	Repeated as current year finding 2008-2
2007-4	Per Ohio Revised Code Section 5705.41(B), no subdivision is to expend money unless it has been appropriated. The School District had several instances in which expenditures and encumbrances in various funds that exceeded their appropriations.	No	Repeated as current year finding 2008-3

2007-5	Ohio Rev. 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 School District'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.	No	This finding was included in the current year management letter.
2007-6	Ohio Revised Code Section 5705.41(D) states that fiscal officers may prepare so called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The School District did not close out all blanket purchase orders at year end. The School District should establish procedures to ensure that all open blanket purchase orders are closed at year end.	Yes	This finding was not noted during the current year audit testing.
2007-7	The Federal Audit Clearinghouse requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. During the current year audit, it was noted that the data collection form for fiscal year ended June 30, 2006 was not submitted until June 18, 2007, which is after the required due date and the School District did no obtain an extension of time to file from the cognizant or oversight agency.	No	Repeated as current year finding 2008-5.



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Mary Taylor, CPA
Auditor of State

LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 12, 2010