



**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Lockland City School District
Hamilton County
210 N. Cooper Avenue
Cincinnati, OH 45215

To the Board of Education:

We have audited the accompanying general purpose financial statements of Lockland City School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lockland City School District, Hamilton County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

February 26, 2002

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LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Assets and other debits:				
Assets:				
Equity in pooled cash and investments	\$5,038,583	\$261,610	\$431,985	\$21,961
Receivables (net of allowances for uncollectibles)				
Taxes	5,236,389	-	788,011	-
Accounts	2,169	-	-	-
Intergovernmental - state and local	4,859	66,335	-	-
Inventory held for resale	-	-	-	-
Materials and supplies inventory	-	-	-	-
Restricted Assets:				
Equity in pooled cash and cash equivalents	740,016	-	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$11,022,016</u>	<u>\$327,945</u>	<u>\$1,219,996</u>	<u>\$21,961</u>

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$ 111,824	\$135,614	\$ -	\$ -	\$6,001,577
-	-	-	-	6,024,400
4,100	-	-	-	6,269
139	-	-	-	71,333
822	-	-	-	822
1,196	-	-	-	1,196
-	-	-	-	740,016
57,977	-	2,339,271	-	2,397,248
-	-	-	604,364	604,364
-	-	-	4,480,026	4,480,026
<u>\$ 176,058</u>	<u>\$135,614</u>	<u>\$2,339,271</u>	<u>\$5,084,390</u>	<u>\$20,327,251</u>

continued

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED BALANCE SHEET-continued
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, equity, and other credits:				
Liabilities:				
Accounts payable	\$ 120,219	\$ 27,350	\$ -	\$ 10,125
Accrued wages and benefits	509,685	95,536	-	-
Due to student groups	-	-	-	-
Deferred revenue	3,977,513	65,272	615,632	-
Compensated absences payable	-	-	-	-
General obligation bonds payable	-	-	-	-
General obligation notes payable	-	-	-	-
Total liabilities	<u>4,607,417</u>	<u>188,158</u>	<u>615,632</u>	<u>10,125</u>
Fund equity and other credits:				
Contributed capital	-	-	-	-
Investment in general fixed assets	-	-	-	-
Retained earnings: unreserved	-	-	-	-
Fund Balances:				
Reserved for encumbrances	328,306	6,501	-	1,179
Reserved for property taxes	725,000	-	105,000	-
Reserved for textbooks	375,911	-	-	-
Reserved for capital improvements	298,856	-	-	-
Reserved for budget stabilization	52,082	-	-	-
Reserved for bus purchases	13,167	-	-	-
Unreserved, designated	68,428	-	-	-
Unreserved, undesignated	4,552,849	133,286	499,364	10,657
Total fund equity and other credits	<u>6,414,599</u>	<u>139,787</u>	<u>604,364</u>	<u>11,836</u>
Total liabilities, fund equity and other credits	<u>\$ 11,022,016</u>	<u>\$ 327,945</u>	<u>\$ 1,219,996</u>	<u>\$ 21,961</u>

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		ACCOUNT GROUPS		Totals (Memorandum Only)	
Enterprise		Trust and Agency	General Fixed Assets	General Long-Term Debt			
\$	2,334	\$	5,107	\$	-	\$	165,135
	31,609		-		-		636,830
	-		5,667		-		5,667
	822		-		-		4,659,239
	12,505		-		427,875		440,380
	-		-		4,636,515		4,636,515
	-		-		20,000		20,000
	47,270		10,774		-		5,084,390
	13,783		-		-		13,783
	-		-		2,339,271		2,339,271
	115,005		-		-		115,005
	-		-		-		335,986
	-		-		-		830,000
	-		-		-		375,911
	-		-		-		298,856
	-		-		-		52,082
	-		-		-		13,167
	-		-		-		68,428
	-		124,840		-		5,320,996
	128,788		124,840		2,339,271		9,763,485
\$	176,058	\$	135,614	\$	2,339,271	\$	5,084,390
						\$	20,327,251

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND AND EXPENDABLE TRUST FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
From local sources:				
Taxes	\$ 5,293,557	\$ -	\$ 739,723	\$ -
Tuition	114,228	-	-	-
Earnings on investments	458,651	-	-	3,816
Extracurricular activities	-	34,283	-	-
Other local revenues	108,702	5,686	-	-
Intergovernmental	1,529,358	775,682	42,379	20,798
Total revenues	<u>7,504,496</u>	<u>815,651</u>	<u>782,102</u>	<u>24,614</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,847,894	306,608	-	-
Special	391,804	54,467	-	-
Vocational	71,191	-	-	-
Other	-	14,865	-	-
Support services:				
Pupil	368,321	36,765	-	-
Instructional staff	444,013	219,073	-	10,125
General administration	37,404	-	-	-
School administration	652,791	-	-	-
Fiscal and business	345,491	-	10,445	-
Operations and maintenance	1,134,463	4,379	-	44,590
Pupil transportation	43,468	-	-	-
Central	14,366	-	-	-
Extracurricular activities	210,512	89,053	-	-
Debt service:				
Principal retirement	10,000	-	375,000	-
Interest and fiscal charges	1,069	-	239,631	-
Total expenditures	<u>6,572,787</u>	<u>725,210</u>	<u>625,076</u>	<u>54,715</u>
Excess (deficiency) of revenues over (under) expenditures	931,709	90,441	157,026	(30,101)

FIDUCIARY FUND TYPES		Totals
Expendable Trust		(Memorandum only)

\$ -	\$ 6,033,280
-	114,228
7,623	470,090
-	34,283
650	115,038
-	2,368,217
<u>8,273</u>	<u>9,135,136</u>

-	3,154,502
-	446,271
-	71,191
-	14,865

-	405,086
15,662	688,873
250	37,654
-	652,791
-	355,936
-	1,183,432
-	43,468
-	14,366
4,971	304,536

-	385,000
-	240,700
<u>20,883</u>	<u>7,998,671</u>

(12,610)	1,136,465
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Continued

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND AND EXPENDABLE TRUST FUND TYPES-Continued
FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Other financing sources (uses):				
Operating transfers in	\$ 374,214	\$ 136,946	\$ 11,784	\$ -
Operating transfers (out)	(300,232)	(374,214)	-	-
Other financing sources	293	2,414	-	-
Other financing uses	-	(18,602)	-	-
Proceeds of sale of fixed assets	183	-	-	-
Total other financing sources (uses)	<u>74,458</u>	<u>(253,456)</u>	<u>11,784</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,006,167	(163,015)	168,810	(30,101)
Fund balances, July 1 as restated	<u>5,408,432</u>	<u>302,802</u>	<u>435,554</u>	<u>41,937</u>
Fund balances, June 30	<u>\$ 6,414,599</u>	<u>\$ 139,787</u>	<u>\$ 604,364</u>	<u>\$ 11,836</u>

The notes to the financial statements are an integral part of this statement.

FIDUCIARY		Totals	
<u>FUND TYPES</u>		(Memorandum	
Expendable	Trust	only)	
\$ -	\$ -	522,944	
-	-	(674,446)	
-	-	2,707	
-	-	(18,602)	
-	-	183	
<hr/>		<hr/>	
-	-	(167,214)	
<hr/>		<hr/>	
(12,610)		969,251	
137,450		6,326,175	
<hr/>		<hr/>	
\$ 124,840	\$	7,295,426	
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LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND AND EXPENDABLE TRUST FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	General Fund			Special Revenue Fund			Debt Service Fund		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:									
Intergovernmental	\$1,204,131	\$1,524,877	\$ 320,746	\$ 826,902	\$ 779,552	\$ (47,350)	\$ 21,288	\$ 42,379	\$ 21,091
Earnings on investments	346,408	481,318	134,910	-	-	-	-	-	-
Tuition	113,240	114,228	988	-	-	-	-	-	-
Rent	2,000	3,500	1,500	2,900	2,900	-	-	-	-
Extracurricular activities	-	-	-	30,013	33,388	3,375	-	-	-
Taxes	4,958,600	4,959,957	1,357	-	-	-	-	-	-
Other miscellaneous revenue	46,000	46,485	485	1,730	2,661	931	707,500	707,597	97
	-	-	-	-	-	-	-	-	-
Total revenues	6,670,379	7,130,365	459,986	861,545	818,501	(43,044)	728,788	749,976	21,188
Expenditures:									
Instruction:									
Regular	3,186,406	2,991,489	194,917	401,329	308,922	92,407	-	-	-
Special	479,752	408,824	70,928	92,110	64,042	28,068	-	-	-
Vocational	75,775	71,534	4,241	-	-	-	-	-	-
Support services:									
Pupil	397,397	365,041	32,356	43,915	36,132	7,783	-	-	-
Instructional staff	549,105	450,540	98,565	240,486	212,380	28,106	-	-	-
General administration	52,985	40,224	12,761	-	-	-	-	-	-
School administration	833,067	777,775	55,292	-	-	-	-	-	-
Fiscal	318,912	280,595	38,317	-	-	-	12,315	10,187	(2,128)
Business	129,850	99,441	30,409	-	-	-	-	-	-
Operations and maintenance	1,361,395	1,282,486	78,909	9,650	9,610	40	-	-	-
Pupil transportation	49,274	45,935	3,339	-	-	-	-	-	-
Central	16,150	15,066	1,084	-	-	-	-	-	-
Extracurricular activities	238,537	209,462	29,075	92,796	91,322	1,474	-	-	-
Capital outlay	2,000	-	2,000	-	-	-	-	-	-
Debt service:									
Principal retirement	10,000	10,000	-	-	-	-	385,000	384,516	484
Interest and fiscal charges	1,069	1,069	-	-	-	-	277,000	230,114	46,886
Total expenditures	7,701,674	7,049,481	652,193	880,286	722,408	157,878	674,315	624,817	49,498
Excess (deficiency) of revenues over (under) expenditures	(1,031,295)	80,884	1,112,179	(18,741)	96,093	114,834	54,473	125,159	70,686
Other financing sources (uses):									
Operating transfers in	\$ 2,400	\$ -	\$ (2,400)	\$ 128,321	\$ 136,946	\$ 8,625	\$ 11,783	\$ 11,784	\$ 1
Proceeds of sale of fixed assets	500	658	158	-	-	-	-	-	-
Refund of prior year expenditures	400,000	431,363	31,363	678	776	98	-	-	-
Other financing sources	100	293	193	2,200	2,200	-	-	-	-
Operating transfers (out)	(303,003)	(300,232)	2,771	(4,752)	-	4,752	-	-	-
Refund of prior year receipts	-	-	-	(392,870)	(392,870)	-	-	-	-
Total other financing sources (uses)	99,997	132,082	32,085	(266,423)	(252,948)	13,475	11,783	11,784	1
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(931,298)	212,966	1,144,264	(285,164)	(156,855)	128,309	66,256	136,943	70,687
Fund balances, July 1	5,117,822	5,117,822	-	384,616	384,616	-	295,042	295,042	-
Fund balances, June 30	\$ 4,186,524	\$ 5,330,788	\$ 1,144,264	\$99,452	\$227,761	\$128,309	\$361,298	\$431,985	\$70,687

continued

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - continued
ALL GOVERNMENTAL FUND AND EXPENDABLE TRUST FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

	Capital Project Funds			Expendable Trust Funds			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:									
Intergovernmental - state and local	15,798	20,798	5,000	-	-	-	\$2,068,119	\$2,367,606	\$299,487
Earnings on investments	3,250	3,816	566	5,750	7,622	1,872	355,408	492,756	137,348
Tuition	-	-	-	-	-	-	113,240	114,228	988
Rent	-	-	-	-	-	-	4,900	6,400	1,500
Extracurricular activities	-	-	-	-	-	-	30,013	33,388	3,375
Taxes	-	-	-	-	-	-	4,958,600	4,959,957	1,357
Other miscellaneous revenue	-	-	-	-	650	650	755,230	757,393	2,163
Total revenues	19,048	24,614	5,566	5,750	8,272	2,522	8,285,510	8,731,728	446,218
Expenditures:									
Instruction:									
Regular	-	-	-	-	-	-	\$3,587,735	\$3,300,411	\$287,324
Special	-	-	-	-	-	-	571,862	472,866	98,996
Vocational	-	-	-	-	-	-	75,775	71,534	4,241
Support services:									
Pupil	-	-	-	-	-	-	441,312	401,173	40,139
Instructional staff	12,000	11,304	696	16,279	15,741	538	817,870	689,965	127,905
General administration	-	-	-	250	250	-	53,235	40,474	12,761
School administration	-	-	-	-	-	-	833,067	777,775	55,292
Fiscal	-	-	-	-	-	-	331,227	290,782	36,189
Business	-	-	-	-	-	-	129,850	99,441	30,409
Operations and maintenance	44,600	44,590	10	-	-	-	1,415,645	1,336,686	78,959
Pupil transportation	-	-	-	-	-	-	49,274	45,935	3,339
Central	-	-	-	-	-	-	16,150	15,066	1,084
Extracurricular activities	-	-	-	4,971	4,971	-	336,304	305,755	30,549
Capital outlay	-	-	-	-	-	-	2,000	-	2,000
Debt service:									
Principal retirement	-	-	-	-	-	-	395,000	394,516	484
Interest and fiscal charges	-	-	-	-	-	-	278,069	231,183	46,886
Total expenditures	56,600	55,894	706	21,500	20,962	538	9,334,375	8,473,562	860,813
Excess (deficiency) of revenues over (under) expenditures	(37,552)	(31,280)	6,272	(15,750)	(12,690)	3,060	(1,048,865)	258,166	1,307,031
Other financing sources (uses):									
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142,504	\$ 148,730	\$ 6,226
Proceeds of sale of fixed assets	-	-	-	-	-	-	500	658	158
Refund of prior year expenditures	-	-	-	-	-	-	400,678	432,139	31,461
Advances in	-	-	-	-	-	-	2,300	2,493	193
Operating transfers (out)	-	-	-	-	-	-	(307,755)	(300,232)	7,523
Refund of prior year receipts	-	-	-	-	-	-	(392,870)	(392,870)	-
Total other financing sources (uses)	-	-	-	-	-	-	1,246,607	1,277,122	30,515
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(37,552)	(31,280)	6,272	(15,750)	(12,690)	3,060	197,742	1,535,288	1,337,546
Fund balances, July 1	41,937	41,937	-	137,450	137,450	-	5,976,867	5,976,867	-
Fund balances, June 30	\$4,385	\$10,657	\$6,272	\$121,700	\$124,760	\$ 3,060	\$6,174,609	\$7,512,155	\$ 1,337,546

The notes to the financial statements are an integral part of this statement.

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Enterprise</u>
Operating revenues:	
Tuition	\$ 18,463
Sales	64,254
Other operating revenues	<u>48,020</u>
Total operating revenues	<u>130,737</u>
Operating expenses:	
Salaries and wages	110,837
Fringe benefits	55,620
Contract services	48,021
Supplies	95,050
Depreciation	4,229
Other operating expenses	<u>12,646</u>
Total operating expenses	<u>326,403</u>
Operating income (loss)	(195,666)
Nonoperating revenues (expenses):	
Donated commodities	4,044
Operating grants	<u>97,130</u>
Total nonoperating revenues (expenses)	<u>101,174</u>
Income (loss) before transfers in	(94,492)
Operating transfers in	<u>151,502</u>
Net income (loss)	57,010
Retained earnings, July 1	<u>57,995</u>
Retained earnings, June 30	<u><u>\$115,005</u></u>

The notes to the financial statements are an integral part of this statement.

LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Enterprise</u>
Cash flows from operating activities:	
Cash received from sales	\$63,622
Cash received from other revenue	63,674
Cash payments for personal services	(155,493)
Cash payments for goods and services	(136,632)
Cash payments for other expenses	(12,646)
Net cash provided by operating activities	<u>(177,475)</u>
Cash flows from noncapital financing activities:	
Cash received from other funds	151,502
Cash received from operating grants	97,130
Net cash provided by noncapital financing activities	<u>248,632</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(28,855)
Net cash used for capital and related financing activities	<u>(28,855)</u>
Net increase (decrease) in cash and cash equivalents	42,302
Cash and cash equivalents, July 1	69,522
Cash and cash equivalents, June 30	<u>\$ 111,824</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (195,666)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,229
Donated commodities used during year	4,044
Changes in assets and liabilities:	
(Increase) in accounts receivables	(3,302)
Decrease in inventories	1,136
(Increase) in intergovernmental receivable	(139)
(Increase) in inventory held for resale	(822)
Increase in accounts payable	2,334
Increase in accrued wages	15,432
(Decrease) in pension obligation payable	(4,877)
(Decrease) in deferred revenue	(253)
Increase in compensated absences payable	409
Net cash provided by operating activities	<u>\$ (177,475)</u>

The notes to the financial statements are an integral part of this statement.

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**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The district ranks as the 567th largest by enrollment among the 660 public and community school districts in the state. It currently operates 2 elementary schools and 1 comprehensive high school. The district employs 37 non-certified and 70 certified (including administrative) full-time and part-time employees to provide services to approximately 670 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The district's significant accounting policies are described below.

A. The Reporting Entity

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the district. The district has no component units. The following organizations are described due to their relationship to the district.

Jointly Governed Organization

Great Oaks Joint Vocational School (JVS) The vocational school is a separate body politic and corporate established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The JVS accepts non-tuition students from the district as a member school; however, it is considered a separate political subdivision and is not considered to be part of the district.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

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.

B. Fund Accounting

The district uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. 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 three categories: governmental, proprietary 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. The acquisition, use and balances of the district's expendable financial resources and the related liabilities (except those accounted for in proprietary and fiduciary funds) are accounted for through governmental funds. The following are the district's governmental fund types:

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

Special Revenue Funds - Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

PROPRIETARY FUNDS

Proprietary funds are used to account for the district's ongoing activities that are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the district's proprietary fund Type:

Enterprise Funds - Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust and Agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have a measurement focus. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items, which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general government, the following account groups are used:

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the district, other than those accounted for in the proprietary funds.

General Long Term Debt Account Group - This account group is established to account for all long-term obligations of the district, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year, in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, available means expected to be received within sixty days of year-end.

Non-exchange transactions in which the district receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the district must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the district on a reimbursement basis.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Current property taxes measurable as of June 30, 2001, and which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues.

Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 2001 are reflected as a reservation of fund balance for future appropriations. Law prohibits the district from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

The district reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the district receives resources before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense, with a like amount reported as donated commodity revenue. Unused donated commodities are reported as deferred revenues.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

D. 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 2001 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 expressed 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 balances from the preceding year as reported by the district Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the district Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.

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

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

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. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
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 all supplemental appropriations during fiscal 2001 in the following amounts:

General fund	\$1,975,800
Special revenue funds	571,884
Debt service fund	10,000
Capital projects fund	(18,718)
Enterprise funds	123,069
Trust funds	38,502

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 GAAP basis (Exhibit 1) and as the equivalent of expenditures on a non-GAAP budgetary basis (Exhibit 3) in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

E. Cash and Investments

To improve cash management, cash received by the district is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the district's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both restricted and unrestricted) on the combined balance sheet.

During fiscal 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), money-market mutual funds, and certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and money-market mutual funds are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

The Board of Education allocates investment earnings to the general fund, the building fund, and the expendable trust fund, in accordance with Ohio statute. Interest revenue credited during fiscal 2001 totaled \$470,090.

For the purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the district are considered to be cash equivalents. The investments of the district have an initial maturity of more than three months.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The district follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the General Fixed Assets Account Group. The district has not included infrastructure in the General Fixed Assets Account Group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Buildings	25-50
Furniture, Fixtures and Minor Equipment	5-20
Vehicles	4-6

H. Compensated Absences

Compensated absences of the district consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the district and the employee.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

In accordance with the provisions of GASB statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years' service at any age were considered expected to become eligible to retire in accordance with GASB statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long Term Debt Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. Long Term Debt

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long Term Debt Account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, and long-term loans are reported as a liability of the General Long Term Debt Account Group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

J. Fund Equity

Reserved fund balances indicate that portion of fund equity that is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for property taxes, encumbrances, and set-asides required by state law. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purpose of those funds. Fund balances are also reserved for those property taxes recognized as revenue because they were available for advance by the county auditor. While these property taxes meet the criteria for revenue recognition, they were not available for appropriation by the district.

K. Interfund Transactions

During the course of normal operations, the district has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. The district had no such transactions during the fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund that provides a service records revenue, and the fund that receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed. The district had no such transactions during the fiscal year.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not resources available to be spent. The district had no such transactions during the fiscal year.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

An analysis of the district's interfund transactions for fiscal year 2001 is presented in Note 5.

L. Statutory Reserves

The district is required by state law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>	<u>Totals</u>
Set-aside cash balance as of June 30, 2000	\$ 248,230	\$ 136,179	\$ 154,698	\$ 539,107
Current year set-aside requirement	169,327	169,327	0	338,654
Reduction authorized by legislation restrictions	0	0	(102,616)	(102,616)
Qualifying disbursements	<u>(41,646)</u>	<u>(6,650)</u>	<u>0</u>	<u>(48,296)</u>
Cash balance carried forward to FY 2002	<u>\$375,911</u>	<u>\$ 298,856</u>	<u>\$ 52,082</u>	<u>\$726,849</u>

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for instructional materials	\$375,911
Amount restricted for bus purchases	13,167
Amount restricted for budget stabilization	52,082
Amount restricted for capital acquisition	<u>298,856</u>
Total restricted assets	<u>\$740,016</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the district to establish and maintain a budget stabilization reserve. By resolution, the board can eliminate the reserve in accordance with the act. As of June 30, 2001, the board had not acted on the Senate bill requirements to eliminate the reserve balance. The non-BWC (Bureau of Workers Compensation) portion of monies designated for set-aside totaling \$64,428 is represented in the General Fund. The district is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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

M. Contributed Capital

Contributed capital represents resources from other funds, other governments, or private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. Contributed capital did not change during fiscal 2001.

N. Financial Reporting for Proprietary Funds

The district's financial statements have been prepared in accordance with GASB statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The district accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

O. Restricted Assets

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 this information is required by state statute.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Q. Memorandum Only - Total Columns

Total columns on the General Purpose Financial statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

A. Deficit Fund Balance/Retained Earnings

Fund balances at June 30, 2001 included the following individual fund balance/retained earnings deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
DPIA	\$ 45,735
<u>Enterprise Funds</u>	
Food Service	13,865

Anticipated future intergovernmental revenues will fund this GAAP deficit or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

B. Legal Compliance

Ohio Revised Code Section 5705.41(D) requires that the district certify that funds are available prior to committing district funds. The district did not always encumber funds prior to commitment during fiscal year 2001.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

Active Deposits - 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 withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Inactive Deposits - 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 - Interim deposits are deposits of interim monies. Interim monies are those monies that 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 accounts, including passbook accounts.

Protection of the district's deposits is provided by the Federal Deposit Insurance Corporation, 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.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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 two percent and be marked to market daily, and that 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;

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

6. The state Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB statement No. 3, Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year-end the carrying amount of the district's deposits was (\$5,487) and the bank balance was \$9,629 of which all was covered by federal deposit insurance (both amounts exclude the payroll clearance account).

Investments: The district's investments are required to be categorized to give an indication of the level of risk assumed by the district at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the district or its agent in the district's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the district's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department or agent but not in the district's name. STAR Ohio and money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

	<u>Fair Value</u>
Not Subject to Categorization:	
Money market mutual funds	\$ 804,703
Investment in State Treasurer's Investment Pool	<u>5,942,377</u>
 Total Investments	 <u>\$6,747,080</u>

The classification of cash and cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB statement No. 9 entitled, Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet per GASB statement No. 9 and the classifications of deposits and investments presented above per GASB statement No. 3 is as follows:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB statement No. 9	\$ 6,741,593	
Investments of the Cash Management Pool:		
Money-market mutual funds	(804,703)	\$ 804,703
State Treasurer's Investment Pool	<u>(5,942,377)</u>	<u>5,942,377</u>
 GASB statement No. 3	 <u>\$ (5,487)</u>	 <u>\$6,747,080</u>

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the district's operating transfers for fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 374,214	\$ (300,232)
Bond Retirement	11,784	
Special Revenue Funds		
Athletic Fund	78,414	
Title VI-B	1,675	(22,677)
EHA Preschool Grant	478	
Miscellaneous Federal Grants	15,713	
DPIA	40,622	(323,485)
Career Education	44	
Eisenhower		(6,277)
Title I		(18,036)
Title VI		(3,739)
Enterprise Funds		
Food Service	145,046	
Special Enterprises	6,456	
Total	<u>\$ 674,446</u>	<u>\$ (674,446)</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the district.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% 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% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed at 50% of market value, and railroads, which are assessed at 29%.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 6 - PROPERTY TAXES

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% 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 the fiscal year 2001 taxes were collected are as follows:

	2000 Second-Half Collections		2001 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$48,598,970	40.95%	\$48,598,970	40.95%
Public Utility Personal	9,333,830	7.87%	9,333,830	7.87%
Tangible Personal Property	60,735,000	51.18%	60,735,000	51.18%
	\$118,667,800	100.00%	\$118,667,800	100.00%
 Tax rate per \$1,000 of assessed valuation				
Operations	\$ 46.90		\$ 46.90	
Debt Service	6.87		6.87	

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.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes that were measurable as of June 30, 2001. Although total property taxes receivable at year-end are measurable, they are not (exclusive of advances) available and intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. Law prohibits the district from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2001 totaled \$725,000 in the general fund and \$105,000 in the debt service fund.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, intergovernmental grants, and entitlements (to the extent such grants and/or entitlements relate to the current fiscal year). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of Federal funds.

A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes - Current & Delinquent	\$5,236,389
Intergovernmental	4,859
 Debt Service Fund	
Taxes - Current & Delinquent	788,011
 Special Revenue	
Intergovernmental	66,335

NOTE 8 - FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	Balance July 1, 2000	Increases	Decreases	Balance June 30, 2001
Land/Improvement	\$ 257,145	\$ 161,164	\$ -	\$ 418,309
Furniture/Equipment	860,639	143,148	-	1,003,787
Buildings	762,191	49,305	-	811,496
Vehicles	101,349	4,330	-	105,679
Total	\$ 1,981,324	\$ 357,947	\$ -	\$ 2,339,271

A summary of the proprietary fund fixed assets at June 30, 2001 follows:

Furniture and Equipment	\$161,336
Less: Accumulated Depreciation	(103,359)
Net Fixed Assets	\$57,977

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 9 - LONG-TERM DEBT

A. Energy Conservation Notes

Energy conservation notes outstanding are general obligations of the district, for which the district's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the General Long Term Debt Account Group. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the Lockland City School District energy conservation note outstanding as of June 30, 2001:

Purpose	Interest Rates	Issue Date	Maturity Date	Principal Outstanding 7/01/00	Retired In Fiscal 2001	Principal Outstanding 06/30/01
Energy Conservation Note	4.05%	6/30/93	6/30/03	\$30,000	(\$10,000)	\$20,000

B. Defeased Debt

In prior years, the district defeased certain general obligation bonds (see table). At the time of the defeasance, funds were deposited with Fifth Third Bank. The principal and interest on the investments in this escrow is used solely to pay the principal and interest requirements on the original issue4 bonds as they come due. The monies with the trustee have been invested in obligations guaranteed as to both principal and interest by the United States and placed in an irrevocable escrow account which, including interest earned will be used to pay the principal and interest on the refunded bonds. As of June 30, 2001, the principal balance of this issue was \$4,660,000 and there was \$4,777,381 of principal and interest on deposit with the trustee.

General Obligation Issues	Date Defeased	Balance (at time of defeasance)	Balance Outstanding at June 30, 2001
General Obligation Issue (1991)	May 2000	\$ 5,315,000	\$ 4,660,000

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 9 - LONG-TERM DEBT (Continued)

C. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds and energy conservation notes outstanding at June 30, 2001 are as follows:

	Fiscal Year Ending June 30	General Obligation Bonds	Capital Appreciation General Obligation Bonds	Energy Conservation Notes	Total
	2002	\$ 702,688		\$ 10,825	\$ 713,513
	2003	581,887		10,413	592,300
	2004	563,088			563,088
	2005	543,987			543,987
	2006 - 2010	1,662,156	\$ 720,000		2,382,156
	2011 - 2015	1,453,775	330,000		1,783,775
	2016 - 2020	236,268			236,268
Total Principal and Interest		5,743,849	1,050,000	21,238	6,815,087
Less: Interest		(1,418,849)	(745,001)	(1,238)	(2,165,088)
Total		<u>\$ 4,325,000</u>	<u>\$ 304,999</u>	<u>\$ 20,000</u>	<u>\$ 4,649,999</u>

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 9 - LONG-TERM DEBT (Continued)

D. Changes in Long Term Debt

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long Term Debt Account Group. Compensated absences and the pension benefit obligation will ultimately be paid from the fund from which the employee is paid.

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2001</u>
General Obligation Bonds:				
Energy Conservation Note 4.05%, 06/30/03 maturity	\$ 30,000		\$ (10,000)	\$ 20,000
Series 2000, Current Interest Refunding Bonds 5.537%, 12/01/23 maturity	4,700,000		(375,000)	4,325,000
Series 2000, Capital Appreciation Refunding Bonds 13.09% (average effective) 12/01/08, 12/01/09 and 12/01/10 maturity	304,999			304,999
Series 2000, Capital Appreciation Refunding Bonds Accreted Interest	6,516			6,516
Total General Obligation Bonds	<u>5,041,515</u>	<u>-</u>	<u>(385,000)</u>	<u>4,656,515</u>
Other Obligations:				
Compensated Absences	446,253		(18,378)	427,875
Pension Obligation Payable	<u>1,547</u>	<u>-</u>	<u>(1,547)</u>	<u>-</u>
Total Other Obligations	447,800	-	(19,925)	427,875
Total General Long Term Liabilities	<u>\$ 5,489,315</u>	<u>\$ -</u>	<u>\$ (404,925)</u>	<u>\$5,084,390</u>

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 9 - LONG-TERM DEBT - (Continued)

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school district should never exceed 9% of the total assessed valuation of the district. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the district. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the district.

The effects of these debt limitations for the district at June 30, 2001 are a voted debt margin of \$6,184,141 (including available funds of \$431,985) an unvoted debt margin of \$118,668, and an unvoted energy conservation debt margin of \$1,098,010.

NOTE 10 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The district maintains three enterprise funds to account for the operations of Food Service, Uniform School Supplies, and the Latchkey program. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the district as of and for the year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey Program</u>	<u>Total</u>
Operating revenue	\$ 63,417	\$ 857	\$ 66,463	\$ 130,737
Depreciation	2,460	-	1,769	4,229
Operating income (loss)	(234,832)	857	38,309	(195,666)
Operating grants	101,174	-		101,174
Transfers In	145,046	-	6,456	151,502
Net income	11,388	857	44,765	57,010
Net working capital	(10,554)	18,900	74,969	83,315
Total assets	45,912	18,900	111,246	176,058
Total liabilities	45,994	-	1,276	47,270
Total equity	(82)	18,900	109,970	128,788
Contributed capital	13,783	-	-	13,783
Operating Expenses	298,249	-	28,154	326,403

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 11 - 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 2001, the district purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$5 million annual aggregate limitation.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded these coverages in any of the past three fiscal years.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, the district requires no funding provisions.

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2001, the district participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

A. School Employees Retirement System

The district contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the district is required to contribute at an actuarially determined rate, which was 14 percent for 2001; 10.5 percent was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by state statute. The adequacy of the contribution rates is determined annually. The district's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$143,172, \$157,072, and \$122,152, respectively; 87 percent has been contributed for fiscal year 2001 and 100 percent for 2000 and 1999. \$21,176, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The district contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Plan members are required to contribute 9.3 percent of their annual covered salary and the district is required to contribute 14 percent; 12 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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, 2001, 2000 and 1999 were \$440,992, \$518,004, and \$402,923, respectively; 87 percent has been contributed for fiscal year 2001, and 100 percent for fiscal year 2000 and 1999. \$67,056, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

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 13 - POSTEMPLOYMENT BENEFITS

The district provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve fund. For the district, this amount equaled \$251,996 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the fund was \$3.419 billion at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were \$283,137,000 million and STRS had 99,011 eligible benefit recipients.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.45 percent of covered payroll, an increase from 6.30 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000, were \$140,696,340 and the target level was \$211 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$253 million. SERS has approximately 51,000 participants currently receiving health care benefits. For the School district, the amount to fund health care benefits, including the surcharge equaled \$93,219 during the 2001 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All governmental fund types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
Budget Basis	\$ 212,966	\$ (156,855)	\$ 136,943	\$ (31,280)
Net Adjustment for Revenue Accruals	374,132	(2,424)	32,125	-
Net Adjustment for Expenditure Accruals	28,883	(36,651)	(258)	(10,125)
Net Adjustment for Other Financing Sources/(Uses)	(57,625)	(935)	-	-
Encumbrances	447,811	33,850	-	11,304
GAAP Basis	\$ 1,006,167	\$ (163,015)	\$ 168,810	\$ (30,101)

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 15 - 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the district at June 30, 2001.

B. Litigation

1. Material Litigation - The district is involved in no material litigation either as a plaintiff or defendant.
2. School Funding Decision - On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:
 - A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
 - Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in state funding for most Ohio school districts. However, as of February 26, 2002, the Ohio General Assembly is still analyzing the impact the Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 15 – CONTINGENCIES (Continued)

On November 2, 2001, the Court granted this motion for reconsideration. The Court might re-examine any issue upon such reconsideration.

As of the date of these financial statements, the district is unable to determine what effect, if any, this decision and the reconsideration will have on its future state funding and on its financial operations.

NOTE 16 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2001, the district has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." At June 30, 000 there was no effect on fund balances as a result of implementing GASB 3 and GASB 36.

NOTE 17 – RESTATEMENT OF FUND BALANCES

The district restated its fund balances on the Combined Statement of Revenue, Expenditures, and Changes in Fund Balances in the general fund and the debt service fund to correct prior year errors as follows:

General Fund	Debt Service Fund
\$ 80,000	\$ (80,000)

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STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Lockland City School District
Hamilton County
210 N. Cooper Avenue
Cincinnati, OH 45215

To the Board of Education:

We have audited the financial statements of Lockland City School District, Hamilton County, Ohio, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 26, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2001-10431-001 and 2001-10431-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 26, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-10431-003 and 2001-10431-004.

Lockland City School District
Hamilton County
Report of Independent Accountants on Compliance And on
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions described above are not material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 26, 2002.

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

Jim Petro
Auditor of State

February 26, 2002

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-10431-001

Material Noncompliance

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

This Section also provides for two exceptions to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000, the Treasurer may authorize payment through a Then and Now Certificate without the affirmation of the Board of Education, if such expenditure is otherwise valid.

In over 18% of expenditures tested, there was no certification of availability of funds made prior to the commitment of the funds and neither exception above was used.

We recommend that the District use then and now certificates or blanket certificates when prior certification is not feasible.

FINDING NUMBER 2001-10431-002

Material Noncompliance

Ohio Rev. Code, Section 149.351, establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42, Revised Code. The District did not present complete records to be audited for Student Activity fund raisers in accordance with the aforementioned provisions. Documents requested were duplicate receipt books, budgets, purpose statement, and any other supporting documentation. Some of the documents requested could not be located by the Student Activity advisors.

We recommend that the District conduct an annual internal audit of student activities. At the end of each school year, an internal audit should be conducted in order to verify compliance with Board and State policies concerning receipts, expenditures, cash on hand, petty cash, and to balance all ledgers and journals with the Treasurer's Office. A copy of the internal audits should be maintained by the Treasurer's office.

FINDING NUMBER 2001-10431-003

Reportable Condition

The District did not have established policies and procedures in place over the student activity/fundraising receipt cycle. Sales project potential forms were not used by the District to account for the income, either actual or projected, from sales projects conducted by student activity programs. Fifty percent of the projects tested at the District did not have a completed sales potential form. Also, collection of receipts was not adequately documented by the schools, receipts were not written to the students and reconciliations were not performed by the activity sponsor. Failure to complete this form could lead to incomplete bookkeeping, a loss of accountability for project receipts and disbursements, and the failure to follow up with students having outstanding obligations at completion of a project.

The weaknesses stated above reduces the District's ability to monitor the receipt cycle and fundraising activities of the District, as well as increase the possibility of noncompliance with state and/or local statutes.

The District should establish policies and procedures for student activity fundraisers as identified in Circular 81-9, "Guidelines for Student Activity Programs" issued by the Auditor of State and enforce the applicable procedures for the receipt of student activity funds. Specific areas of the system that should be established include the following:

- A. Budget and purpose statement be properly completed and approved (also by the Board of Education) for all student activities before any expenditures are paid by the Treasurer's office. This will ensure that the student activity will not expend more than what they expect to receive.
- B. Sales project potential forms or ledgers should be completed as a source document to verify the activity of a fundraiser or sale. These forms should be approved by the School Principal and Superintendent prior to commencement of the fundraiser. This will provide source information to substantiate the accuracy of the receipts.
- C. All schools should adequately document the collection of all money by writing receipts and providing reconciliations to the Treasurer.
- D. Annual training for Student Activity advisors should also be conducted by the Treasurer's Office at which time the advisors should receive a copy of the policies and procedures required by the Board in relation to Student Activity fundraisers.

Specific implementation of these procedures, as well as emphasis on the importance of all receipt procedures, will add a substantial measure of control to the District's receipt cycle. The Board of Education, as the district's governing board, should also stress to all schools the importance of adhering to District regulations and policies.

FINDING NUMBER 2001-10431-004

Reportable Condition

The District did not have a computerized fixed asset listing of buildings, equipment, other physical assets, or additions and/or deletions. Furthermore, the District had no system in place for the tracking and maintaining of fixed assets. Manual researching of selected object codes of the District's accounting system by the Auditor of State's Office was used to identify additions to the District's fixed asset inventory increasing the audit costs of the District. The lack of a computerized fixed asset system and established procedures to monitor additions and deletions will decrease the District's ability to safeguard its fixed assets.

The District should maintain a computerized inventory list which could consist of, but not be limited to, the following: description, cost, serial number, model number, location, and date acquired. In addition, this list should be updated perpetually by District personnel.

We recommend that the District have a fixed asset appraisal completed to determine the value, location, and amount of property owned by the District. All assets should be tagged for identification and download all information onto the District's computer system. The District should use Asset Additions forms as well as Asset Disposal forms to account for the changes to the inventory system. This procedure will improve control over District property by decreasing the risk of loss and misappropriation. Perpetual maintenance of such information would also assist the District in maintaining adequate insurance coverage, as well as provide support evidence in case of theft or fire losses.

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LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No longer Valid; Explain:
2000-10431-001	The District did not file annual report within 150 days of the fiscal year end.	Yes	N/A



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OFFICE OF THE AUDITOR

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LOCKLAND CITY SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2002**