



**Auditor of State
Betty Montgomery**

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lockland City School District
Hamilton County
210 North Cooper Avenue
Cincinnati, Ohio 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 fiscal year ended June 30, 2003, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

We were unable to obtain supporting documentation for amounts paid in to the student activity fund. The student activities agency fund represents nine percent of the Total Assets and seventy-six percent of the Total Liabilities of the Fiduciary Fund Type.

In our opinion, except for such adjustments as may have been needed had we been able to examine evidence related to the fiduciary fund type presented in the Combined Balance Sheet, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lockland Local School District, Hamilton County, as of June 30, 2003, and the results of its operations and the cash flows of its enterprise funds for the fiscal 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 March 18, 2004, 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.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by the *U.S. Office of Management & Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 18, 2004

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LOCKLAND CITY SCHOOL DISTRICT
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Cash and Cash Equivalents	\$1,857,538	\$231,211	\$511,480	\$16,751
<i>Receivables:</i>				
Taxes	3,003,335	0	571,083	0
Accounts	1,654	943	0	0
Intergovernmental	715	102,926	0	0
Interfund	94,136	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
<i>Restricted Assets:</i>				
Cash and Cash Equivalents	422,542	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided from				
General Government Resources	0	0	0	0
Total Assets and Other Debits	\$5,379,920	\$335,080	\$1,082,563	\$16,751
<u>Liabilities, Fund Equity, and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$140,403	\$20,076	\$0	\$0
Accrued Wages and Benefits Payable	479,527	76,285	0	0
Compensated Absences Payable	111,376	0	0	0
Intergovernmental Payable	126,319	39,080	0	0
Interfund Payable	0	66,758	0	0
Deferred Revenue	2,363,335	35,000	449,583	0
Due to Students	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	3,220,960	237,199	449,583	0
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
<i>Retained Earnings:</i>				
Unreserved	0	0	0	0
<i>Fund Balance:</i>				
Reserved for Encumbrances	48,267	1,792	0	0
Reserved for Property Taxes	640,000	0	121,500	0
Reserved for Bus Purchase Allowance	630	0	0	0
Reserved for Statutory Set-Asides	421,912	0	0	0
<i>Unreserved:</i>				
Designated	68,428	0	0	0
Undesignated	979,723	96,089	511,480	16,751
Total Fund Equity and Other Credits	2,158,960	97,881	632,980	16,751
Total Liabilities, Fund Equity and Other Credits	\$5,379,920	\$335,080	\$1,082,563	\$16,751

See accompanying notes to the general purpose financial statements.

<i>PROPRIETARY FUND TYPE</i>	<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$104,662	\$142,645	\$0	\$0	\$2,864,287
0	0	0	0	3,574,418
80	0	0	0	2,677
18,641	0	0	0	122,282
0	0	0	0	94,136
2,731	0	0	0	2,731
824	0	0	0	824
0	0	0	0	422,542
18,045	0	2,553,869	0	2,571,914
0	0	0	632,980	632,980
0	0	0	3,781,722	3,781,722
<u>\$144,983</u>	<u>\$142,645</u>	<u>\$2,553,869</u>	<u>\$4,414,702</u>	<u>\$14,070,513</u>
\$8,742	\$4,288	\$0	\$0	\$173,509
25,629	0	0	0	581,441
10,057	0	0	504,087	625,520
25,877	0	0	35,057	226,333
27,378	0	0	0	94,136
982	0	0	0	2,848,900
0	8,853	0	0	8,853
0	0	0	3,875,558	3,875,558
<u>98,665</u>	<u>13,141</u>	<u>0</u>	<u>4,414,702</u>	<u>8,434,250</u>
0	0	2,553,869	0	2,553,869
15,591	0	0	0	15,591
30,727	0	0	0	30,727
0	20	0	0	50,079
0	0	0	0	761,500
0	0	0	0	630
0	0	0	0	421,912
0	0	0	0	68,428
0	129,484	0	0	1,733,527
<u>46,318</u>	<u>129,504</u>	<u>2,553,869</u>	<u>0</u>	<u>5,636,263</u>
<u>\$144,983</u>	<u>\$142,645</u>	<u>\$2,553,869</u>	<u>\$4,414,702</u>	<u>\$14,070,513</u>

LOCKLAND CITY SCHOOL DISTRICT
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	GOVERNMENTAL FUND TYPES					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<u>Revenues:</u>						
Taxes	\$2,936,548	\$0	\$567,399	\$0	\$0	\$3,503,947
Intergovernmental	1,434,053	772,406	35,435	16,915	0	2,258,809
Interest	76,788	0	0	0	1,747	78,535
Tuition and Fees	141,138	0	0	0	0	141,138
Extracurricular Activities	0	42,767	0	0	0	42,767
Miscellaneous	192,006	10,479	0	0	400	202,885
<i>Total Revenues</i>	<u>4,780,533</u>	<u>825,652</u>	<u>602,834</u>	<u>16,915</u>	<u>2,147</u>	<u>6,228,081</u>
<u>Expenditures:</u>						
<i>Current:</i>						
<i>Instruction:</i>						
Regular	3,059,338	376,918	0	0	0	3,436,256
Special	410,368	102,830	0	0	0	513,198
Vocational	80,262	0	0	0	0	80,262
<i>Support Services:</i>						
Pupils	376,756	74,834	0	0	0	451,590
Instructional Staff	543,352	306,958	0	9,915	0	860,225
Board of Education	48,081	0	0	0	250	48,331
Administration	927,327	0	0	0	0	927,327
Fiscal	295,466	0	9,870	0	0	305,336
Business	96,054	0	0	0	0	96,054
Operation and Maintenance of Plant	1,308,252	13,028	0	0	0	1,321,280
Pupil Transportation	67,848	15,970	0	0	0	83,818
Central	30,936	0	0	0	0	30,936
Non-Instructional Services	0	630	0	0	0	630
Extracurricular Activities	225,133	89,964	0	0	500	315,597
Capital Outlay	6,225	0	0	0	0	6,225
<i>Debt Service:</i>						
Principal Retirement	10,000	0	400,000	0	0	410,000
Interest and Fiscal Charges	0	0	181,887	0	0	181,887
<i>Total Expenditures</i>	<u>7,485,398</u>	<u>981,132</u>	<u>591,757</u>	<u>9,915</u>	<u>750</u>	<u>9,068,952</u>
Excess of Revenues Over (Under) Expenditures	(2,704,865)	(155,480)	11,077	7,000	1,397	(2,840,871)
<u>Other Financing Sources (Uses):</u>						
Operating Transfers In	0	34,250	0	0	0	34,250
Proceeds from Sale of Fixed Assets	555	0	0	0	0	555
Operating Transfers Out	(134,250)	0	0	0	0	(134,250)
<i>Total Other Financing Sources (Uses)</i>	<u>(133,695)</u>	<u>34,250</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(99,445)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,838,560)	(121,230)	11,077	7,000	1,397	(2,940,316)
Fund Balances at Beginning of Year	<u>4,997,520</u>	<u>219,111</u>	<u>621,903</u>	<u>9,751</u>	<u>128,107</u>	<u>5,976,392</u>
Fund Balances at End of Year	<u>\$2,158,960</u>	<u>\$97,881</u>	<u>\$632,980</u>	<u>\$16,751</u>	<u>\$129,504</u>	<u>\$3,036,076</u>

See accompanying notes to the general purpose financial statements.

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LOCKLAND CITY SCHOOL DISTRICT
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	GENERAL FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Taxes	\$3,276,876	\$3,281,548	\$4,672
Intergovernmental	1,207,034	1,433,953	226,919
Interest	128,232	76,788	(51,444)
Tuition and Fees	170,600	141,138	(29,462)
Extracurricular Activities	0	0	0
Rent	6,000	0	(6,000)
Miscellaneous	89,500	153,485	63,985
Total Revenues	4,878,242	5,086,912	208,670
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	3,038,151	2,903,558	134,593
Special	430,027	413,164	16,863
Vocational	83,196	78,193	5,003
<i>Support Services:</i>			
Pupils	429,426	416,656	12,770
Instructional Staff	525,855	489,748	36,107
Board of Education	53,987	51,108	2,879
Administration	871,289	856,460	14,829
Fiscal	293,306	290,387	2,919
Business	89,730	89,143	587
Operation and Maintenance of Plant	1,335,692	1,327,355	8,337
Pupil Transportation	69,438	66,870	2,568
Central	32,841	30,127	2,714
Non-Instructional Services	0	0	0
Extracurricular Activities	225,421	223,029	2,392
Capital Outlay	7,800	6,225	1,575
<i>Debt Service:</i>			
Principal Retirement	10,000	10,000	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	7,496,159	7,252,023	244,136
Excess of Revenues Over (Under) Expenditures	(2,617,917)	(2,165,111)	452,806
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	0	0	0
Advances In	13,000	12,791	(209)
Proceeds from Sale of Fixed Assets	9,000	555	(8,445)
Refund of Prior Year Expenditures	27,000	39,694	12,694
Other Financing Sources	0	0	0
Operating Transfers Out	(138,200)	(134,250)	3,950
Refund of Prior Year Receipts	(79,650)	(78,745)	905
Advances Out	(94,150)	(94,134)	16
Total Other Financing Sources (Uses)	(263,000)	(254,089)	8,911
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,880,917)	(2,419,200)	461,717
Fund Balances at Beginning of Year	4,179,386	4,179,386	0
Prior Year Encumbrances Appropriated	360,743	360,743	0
Fund Balances at End of Year	\$1,659,212	\$2,120,929	\$461,717

See accompanying notes to the general purpose financial statements.

GOVERNMENTAL FUND TYPES

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$577,471	\$625,899	\$48,428
846,601	731,849	(114,752)	47,031	35,435	(11,596)
0	0	0	0	0	0
0	0	0	0	0	0
43,974	43,336	(638)	0	0	0
0	0	0	0	0	0
2,925	4,367	1,442	0	0	0
<u>893,500</u>	<u>779,552</u>	<u>(113,948)</u>	<u>624,502</u>	<u>661,334</u>	<u>36,832</u>
415,939	351,298	64,641	0	0	0
145,331	101,829	43,502	0	0	0
2,000	0	2,000	0	0	0
82,192	70,461	11,731	0	0	0
353,933	275,785	78,148	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	11,000	9,870	1,130
0	0	0	0	0	0
13,028	13,028	0	0	0	0
20,841	15,034	5,807	0	0	0
0	0	0	0	0	0
2,302	630	1,672	0	0	0
109,227	92,183	17,044	0	0	0
0	0	0	0	0	0
0	0	0	400,000	400,000	0
0	0	0	181,887	181,887	0
<u>1,144,793</u>	<u>920,248</u>	<u>224,545</u>	<u>592,887</u>	<u>591,757</u>	<u>1,130</u>
(251,293)	(140,696)	110,597	31,615	69,577	37,962
61,445	34,250	(27,195)	0	0	0
0	66,757	66,757	0	0	0
0	0	0	0	0	0
0	533	533	0	0	0
3,230	5,580	2,350	0	0	0
0	0	0	0	0	0
(38)	(38)	0	0	0	0
<u>(7,577)</u>	<u>(7,577)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
57,060	99,505	42,445	0	0	0
(194,233)	(41,191)	153,042	31,615	69,577	37,962
209,492	209,492	0	425,675	425,675	0
38,608	38,608	0	0	0	0
<u>\$53,867</u>	<u>\$206,909</u>	<u>\$153,042</u>	<u>\$457,290</u>	<u>\$495,252</u>	<u>\$37,962</u>

(Continued)

LOCKLAND CITY SCHOOL DISTRICT
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	CAPITAL PROJECTS FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Taxes	\$0	\$0	\$0
Intergovernmental	16,915	16,915	0
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Rent	0	0	0
Miscellaneous	0	0	0
Total Revenues	16,915	16,915	0
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	0	0	0
Special	0	0	0
Vocational	0	0	0
<i>Support Services:</i>			
Pupils	0	0	0
Instructional Staff	37,971	9,915	28,056
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Business	0	0	0
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Central	0	0	0
Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	0	0	0
<i>Debt Service:</i>			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	37,971	9,915	28,056
Excess of Revenues Over (Under) Expenditures	(21,056)	7,000	28,056
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	0	0	0
Advances In	0	0	0
Proceeds from Sale of Fixed Assets	0	0	0
Refund of Prior Year Expenditures	0	0	0
Other Financing Sources	0	0	0
Operating Transfers Out	0	0	0
Refund of Prior Year Receipts	0	0	0
Advances Out	0	0	0
Total Other Financing Sources (Uses)	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(21,056)	7,000	28,056
Fund Balances at Beginning of Year	9,752	9,752	0
Prior Year Encumbrances Appropriated	11,304	11,304	0
Fund Balances at End of Year	<u>\$0</u>	<u>\$28,056</u>	<u>\$28,056</u>

See accompanying notes to the general purpose financial statements.

<i>EXPENDABLE TRUST FUND</i>			<i>TOTALS (MEMORANDUM ONLY)</i>		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$3,854,347	\$3,907,447	\$53,100
0	0	0	2,117,581	2,218,152	100,571
4,650	1,747	(2,903)	132,882	78,535	(54,347)
0	0	0	170,600	141,138	(29,462)
0	0	0	43,974	43,336	(638)
0	0	0	6,000	0	(6,000)
350	400	50	92,775	158,252	65,477
5,000	2,147	(2,853)	6,418,159	6,546,860	128,701
0	0	0	3,454,090	3,254,856	199,234
0	0	0	575,358	514,993	60,365
0	0	0	85,196	78,193	7,003
0	0	0	511,618	487,117	24,501
10,020	0	10,020	927,779	775,448	152,331
250	250	0	54,237	51,358	2,879
0	0	0	871,289	856,460	14,829
0	0	0	304,306	300,257	4,049
0	0	0	89,730	89,143	587
0	0	0	1,348,720	1,340,383	8,337
0	0	0	90,279	81,904	8,375
0	0	0	32,841	30,127	2,714
0	0	0	2,302	630	1,672
2,892	500	2,392	337,540	315,712	21,828
0	0	0	7,800	6,225	1,575
0	0	0	410,000	410,000	0
0	0	0	181,887	181,887	0
13,162	750	12,412	9,284,972	8,774,693	510,279
(8,162)	1,397	9,559	(2,866,813)	(2,227,833)	638,980
0	0	0	61,445	34,250	(27,195)
0	0	0	13,000	79,548	66,548
0	0	0	9,000	555	(8,445)
0	0	0	27,000	40,227	13,227
0	0	0	3,230	5,580	2,350
0	0	0	(138,200)	(134,250)	3,950
0	0	0	(79,688)	(78,783)	905
0	0	0	(101,727)	(101,711)	16
0	0	0	(205,940)	(154,584)	51,356
(8,162)	1,397	9,559	(3,072,753)	(2,382,417)	690,336
128,087	128,087	0	4,952,392	4,952,392	0
20	20	0	410,675	410,675	0
<u>\$119,945</u>	<u>\$129,504</u>	<u>\$9,559</u>	<u>\$2,290,314</u>	<u>\$2,980,650</u>	<u>\$690,336</u>

LOCKLAND CITY SCHOOL DISTRICT
Combined Statement of Revenues,
Expenses and Changes in Retained Earnings
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	Enterprise
<u>Operating Revenues:</u>	
Tuition	\$13,483
Sales	35,051
Charges for Services	18,600
<i>Total Operating Revenues</i>	67,134
<u>Operating Expenses:</u>	
Salaries	184,490
Fringe Benefits	62,495
Purchased Services	153
Material and Supplies	107,514
Cost of Sales	8,360
Depreciation	2,300
Other	68
<i>Total Operating Expenses</i>	365,380
Operating Income (Loss)	(298,246)
<u>Nonoperating Revenues:</u>	
Federal Donated Commodities	8,360
Federal and State Subsidies	154,109
<i>Total Nonoperating Revenues</i>	162,469
Income (Loss) Before Operating Transfers	(135,777)
Operating Transfers In	100,000
Net Income (Loss)	(35,777)
Retained Earnings at Beginning of Year - As Restated	66,504
Retained Earnings at End of Year	\$30,727

See accompanying notes to the general purpose financial statements.

LOCKLAND CITY SCHOOL DISTRICT
Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	Enterprise
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Sales and Charges for Services	\$58,738
Cash Received from Tuition	13,840
Cash Payments to Suppliers for Goods and Services	(101,403)
Cash Payments to Employees for Services	(167,662)
Cash Payments for Employee Benefits	(62,307)
Cash Payments for Other Operating Expenses	(68)
<i>Net Cash from Operating Activities</i>	(258,862)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	168,301
Advances In from Other Funds	27,378
Advances Out from Other Funds	(5,215)
Transfers In from Other Funds	100,000
<i>Net Cash from Noncapital Financing Activities</i>	290,464
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Contributed Capital	1,808
<i>Net Cash from Capital and Related Financing Activities</i>	1,808
Net Increase (Decrease) in Cash and Cash Equivalents	33,410
Cash and Cash Equivalents at Beginning of Year	71,252
Cash and Cash Equivalents at End of Year	\$104,662
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Income (Loss)	(\$298,246)
<u>Adjustments to Reconcile Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
Depreciation	2,300
Donated Commodities Used During Year	8,360
Nonoperating Cash Receipts	39
<u>Changes in Assets and Liabilities:</u>	
(Increase) Decrease in Accounts Receivable	5,000
(Increase) Decrease in Intergovernmental Receivable	405
(Increase) Decrease in Inventory Held for Resale	(1,749)
Increase (Decrease) in Accounts Payable	7,249
Increase (Decrease) in Accrued Wages and Benefits Payable	278
Increase (Decrease) in Compensated Absences Payable	(8,375)
Increase (Decrease) in Intergovernmental Payable	25,877
Total Adjustments	39,384
Net Cash from Operating Activities	(\$258,862)

See accompanying notes to the general purpose financial statements.

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LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 587th largest by enrollment among the 704 public and community school districts in the state. It currently operates one elementary school and one comprehensive high school. The District employs 30 non-certified, 52 certified and 6 administrative full-time and part-time employees to provide services to approximately 650 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.

Public Entity Risk Pool

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

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

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

Special Revenue Funds - These 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.

Debt Service Fund - This 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 - This 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.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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.

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:

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 Obligations 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. 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, 2003, and which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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, 2003 are reflected as a reservation of fund balance for property taxes. 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.

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 2003 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.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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 the District Treasurer identifies decreases in revenue. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. 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 several supplemental appropriations during fiscal 2003.
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 and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 "Cash and Cash Equivalents" (both restricted and unrestricted) on the combined balance sheet.

During fiscal 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), and money-market mutual funds.

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

STAROhio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

The Board of Education allocates investment earnings to the General Fund, and the Expendable Trust Fund, in accordance with Ohio statute. Interest revenue credited to the General Fund during fiscal 2003 amounted to \$76,788, which includes \$15,479 assigned from other District funds. In addition, the Expendable Trust Fund received \$1,747 in interest revenue.

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. The amount of unused commodities are reported as a deferred revenue since title does not pass to the District until the commodities are used.

G. Fixed Assets and Depreciation

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. The District has not included infrastructure in the General Fixed Assets Account Group.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Fixed assets reflected in the proprietary 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 an estimated useful life of 25-50 years for buildings, 5-20 years for furniture, fixtures and minor equipment, and 4-6 years for vehicles.

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.

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 Obligations 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 Obligations 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 Obligations 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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, bus purchase allowance 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 Hamilton 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.

An analysis of the District's interfund transactions for fiscal year 2003 is presented in Note 5.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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, 2003, the reserve activity was as follows:

	Instructional Materials	Capital Acquisition	Budget Stabilization	Totals
Set-Aside Cash Balance as of June 30, 2002	\$376,727	\$73,958	\$52,082	\$502,767
Current Year Set-Aside Requirement	85,616	85,616	0	171,232
Qualifying Disbursements	(92,513)	(240,443)	0	(332,956)
Total	369,830	(80,869)	52,082	341,043
Cash Balance Carried Forward to FY 2004	\$369,830	\$0	\$52,082	
Total Restricted Assets				<u>\$421,912</u>

Effective April 10, 2001, Amended Substitute 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 of Education can eliminate the reserve in accordance with the Act. As of June 30, 2003, the Board had acted on the Senate Bill requirements to keep the reserve balance. The non-BWC (Bureau of Workers Compensation) portion of monies designated for set-aside totaling \$68,428 is represented in the General Fund. The District is still required by state law to maintain the instructional materials (textbook) reserve and the capital acquisition reserve.

M. Contributed Capital

Contributed capital on the balance sheet represents resources from other funds, other governments, or private sources provided to proprietary funds before July 1, 2000, 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 of \$1,808 was recognized during fiscal 2003.

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.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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.

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.

NOTE 3 - ACCOUNTABILITY AND 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 2003.

Other areas of noncompliance involved the following: extracurricular and miscellaneous receipts were not deposited within the next business day; several funds had negative fund balances throughout fiscal year 2003; and the District did not retain EMIS documentation for the 2003 fiscal year.

Fund balances at June 30, 2003 included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Disadvantaged Pupil Impact Aid	\$5,498
Intervention Grant	5,220
Title II-A	12,629
<i>Enterprise Fund:</i>	
Food Service	30,066

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.

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.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

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

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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 \$32,170 and the bank balance was \$100,750 of which all was covered by federal deposit insurance (both amounts exclude the payroll clearance account). At year-end the District had \$3,771 of petty cash on hand.

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. STAROhio and money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Carrying Value/ Fair Value
Not Subject to Categorization:	
Money Market Mutual Funds	\$381,946
STAROhio	2,872,713
	2,872,713
Total Investments	\$3,254,659

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:

	Deposits/ Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$3,286,829	\$0
Investments of the Cash Management Pool:		
Money Market Mutual Funds	(381,946)	381,946
STAROhio	(2,872,713)	2,872,713
	(3,254,659)	2,872,713
GASB Statement No. 3	\$32,170	\$3,254,659

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2003:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$134,250
<i>Special Revenue Fund:</i>		
Athletic	34,250	0
<i>Enterprise Fund:</i>		
Food Service	100,000	0
Total	\$134,250	\$134,250

Interfund balances at year-end consist of the following individual fund receivables and payables:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$94,136	\$0
<i>Special Revenue Funds:</i>		
Title VI-B	0	11,789
Title I	0	54,969
Total Special Revenue Funds	0	66,758
<i>Enterprise Fund:</i>		
Food Service	0	27,378
Total	\$94,136	\$94,136

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 percent of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value, except for the personal property of rural electric companies, which is assessed at 50 percent of market value, and railroads, which are assessed at 29 percent.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - PROPERTY TAXES (Continued)

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue that would otherwise have been collected.

The assessed values upon which the fiscal year 2003 taxes were collected are as follows:

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$60,563,100	58.15%	\$60,673,250	71.67%
Public Utility Personal	5,247,820	5.04%	6,071,840	7.17%
Tangible Personal Property	38,345,250	36.81%	17,911,990	21.16%
	<u>\$104,156,170</u>	<u>100.00%</u>	<u>\$84,657,080</u>	<u>100.00%</u>

Tax Rate per \$1,000

Operations	\$32.09	\$32.09
Debt Service	5.00	5.00

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, 2003. 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, 2003, are reflected as a reservation of fund balance for property taxes. 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, 2003 totaled \$640,000 in the General Fund and \$121,500 in the Debt Service Fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 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.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of intergovernmental receivables follows:

<i>General Fund:</i>	
Other Reimbursements	\$715
<i>Special Revenue Funds:</i>	
Athletic	168
School Net Professional Development	1,000
Title VI-B	46,789
Title I	54,969
Total Special Revenue Funds	102,926
<i>Enterprise Funds:</i>	
Food Service	18,602
Special Enterprise	39
Total Enterprise Funds	18,641
Total Intergovernmental Receivable	\$122,282

NOTE 8 - FIXED ASSETS

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

	Balance July 1, 2002	Transfer/ Additions	Transfer/ Deletions	Balance June 30, 2003
Land and Land Improvements	\$739,226	\$60,445	\$0	\$799,671
Furniture and Equipment	2,163,387	0	0	2,163,387
Buildings	4,345,232	179,998	0	4,525,230
Vehicles	115,826	0	0	115,826
Total Fixed Assets	7,363,671	240,443	0	7,604,114
Accumulated Depreciation	4,699,357	350,888		5,050,245
Total Net Fixed Assets	\$2,664,314	(\$110,445)	\$0	\$2,553,869

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fund fixed assets at June 30, 2003 follows:

Furniture and Equipment	\$105,894
Less: Accumulated Depreciation	(87,849)
Net Fixed Assets	\$18,045

NOTE 9 - LONG-TERM DEBT

A. Energy Conservation Note

The energy conservation note outstanding is a general obligation of the District, for which the District's full faith and credit is pledged for repayment. Accordingly, this note is accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to this note 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 Local School District energy conservation note outstanding as of June 30, 2003:

Purpose	Interest Rate	Issue Date	Maturity Date	Outstanding July 1, 2002	Retired	Outstanding June 30, 2003
Energy Conservation Note	4.05%	6/30/93	6/30/03	\$10,000	(\$10,000)	\$0

B. Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2003, \$3,970,000 of bonds outstanding are considered defeased.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - LONG-TERM DEBT - (Continued)

C. Debt Service Requirements

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds	Capital Appreciation General Obligation Bonds	Total
2004	\$563,088	\$0	\$563,088
2005	543,987	0	543,987
2006	524,688	0	524,688
2007	505,187	0	505,187
2008	480,611	0	480,611
2009-2013	948,125	1,050,000	1,998,125
2014-2016	893,588	0	893,588
Total	4,459,274	1,050,000	5,509,274
Less: Interest	1,034,274	745,001	1,779,275
Total Principal	<u>\$3,425,000</u>	<u>\$304,999</u>	<u>\$3,729,999</u>

D. Changes in Long Term Debt

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences will ultimately be paid from the fund from which the employee is paid.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - LONG-TERM DEBT - (Continued)

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
<i>General Obligation Bonds:</i>				
Energy Conservation Note 4.05%, 6/30/03 Maturity	\$10,000	\$0	\$10,000	\$0
Series 2000, Current Interest Refunding Bonds 5.537%, 12/01/15 Maturity	3,825,000	0	400,000	3,425,000
Series 2000, Capital Appreciation Refunding Bonds 13.09% (average effective) 12/01/08, 12/01/09 and 12/01/10 Maturity	304,999	0	0	304,999
Series 2000, Capital Appreciation Refunding Bonds Accreted Interest	93,408	52,151	0	145,559
Total General Obligation Bonds	4,233,407	52,151	410,000	3,875,558
<i>Other Obligations:</i>				
Compensated Absences	640,908	0	136,821	504,087
Total General Long-Term Liabilities	\$4,874,315	\$52,151	\$546,821	\$4,379,645

The Series 2000 refunding general obligation bonds consist of \$3,425,000 in current interest bonds and \$304,999 of capital appreciation bonds which were accreted \$52,151 in 2003. The carrying balance of the capital appreciation bonds at June 30, 2003 was \$450,558.

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school district should never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1 percent of the property valuation of the District. The District's voted legal debt margin was \$3,743,579 with an unvoted debt margin of \$84,657 at June 30, 2003.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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, 2003.

	Food Service	Uniform School Supplies	Latchkey Program	Total
Operating Revenue	\$34,991	\$60	\$32,083	\$67,134
Depreciation	2,300	0	0	2,300
Operating Income (Loss)	(307,380)	(6,419)	15,553	(298,246)
Operating Expenses (Less Depreciation)	340,071	6,479	16,530	363,080
Operating Grants	162,430	0	39	162,469
Transfers In	100,000	0	0	100,000
Net Income (Loss)	(44,950)	(6,419)	15,592	(35,777)
Net Working Capital	(54,234)	12,297	70,210	28,273
Total Assets	56,983	17,288	70,712	144,983
Total Liabilities	93,172	4,991	502	98,665
Total Equity	(36,189)	12,297	70,210	46,318
Contributed Capital	15,591	0	0	15,591

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 2003, the District purchased from Indiana 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. There has been no significant change in coverage from last year.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - RISK MANAGEMENT - (Continued)

OSBA Worker's Compensation Group Rating

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement 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.

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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 is currently 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002, and 2001 were \$96,248, 160,763, and \$143,172, respectively; 68.56 percent has been contributed for fiscal year 2003 and 100 percent for 2002, and 2001. \$30,260, which represents the unpaid contribution for fiscal year 2003, 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations for fiscal year 2003. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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, 2003, 2002 and 2001 were \$455,969, 463,409, \$440,992, respectively; 83.42 percent has been contributed for fiscal year 2003, and 100 percent for fiscal year 2002 and 2001. \$75,619, which represents the unpaid contribution for fiscal year 2003, 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 fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$35,075 during the 2003 fiscal year.

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002 (the latest information year available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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 fiscal year 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002 (the latest information year available), 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, 2002 (the latest information year available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 (the latest information year available) SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge equaled \$124,781 during the 2003 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 Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Trust Fund 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);
- (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).

LOCKLAND CITY SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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 of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Sources All Governmental Fund Types			
	General	Special Revenue	Debt Service
GAAP Basis	(\$2,838,560)	(\$121,230)	\$11,077
<i>Adjustments:</i>			
Revenue Accruals	306,379	(46,100)	58,500
Expenditure Accruals	233,375	60,884	0
Other Financing Sources/(Uses)	(120,394)	65,255	0
Budget Basis	(\$2,419,200)	(\$41,191)	\$69,577

The Capital Projects and Expendable Trust Funds are not included in the reconciliation because there are no differences between the GAAP basis and the budget basis.

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, 2003.

B. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

**LOCKLAND LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	\$ 0	\$ 8,360	\$ 0	\$ 8,360
National School Breakfast Program	05-PU	10.553	28,190	0	28,190	0
National School Lunch Program	LL-N4 LL-P4	10.555	15,167 113,689	0 0	15,167 113,689	0 0
Total			<u>128,856</u>	<u>0</u>	<u>128,856</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>157,046</u>	<u>8,360</u>	<u>157,046</u>	<u>8,360</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Title VI-B Grant	6B-SD 6B-SF	84.027	15,000 90,755	0 0	4,195 86,227	0 0
			<u>105,755</u>	<u>0</u>	<u>90,422</u>	<u>0</u>
Preschool Grant	PG-S1	84.173	2,441	0	4,780	0
Total Special Education Cluster			<u>108,196</u>	<u>0</u>	<u>95,202</u>	<u>0</u>
Title I Grant	C1-S1	84.010	116,564	0	175,874	0
Title VI Grant	C2-S1	84.298	6,282	0	6,282	0
Improving Teacher Quality State Grant	TR-S1	84.367	61,938	0	69,959	0
Education Technology State Grant	TJ-S1	84.318	681	0	0	0
Assistive Technology Infusion	AT-S2	84.352A	2,285	0	0	0
Safe and Drug Free Schools and Communities Service Grant	T4-S1	84.184C	1,038	0	0	0
Goals 2000	G2-S9	84.276	0	0	10,304	0
Drug-Free Schools Grant	DR-S1	84.186	4,229	0	4,229	0
			<u>301,213</u>	<u>0</u>	<u>361,850</u>	<u>0</u>
<i>Passed Through Great Oaks Institute of Technology and Career Development:</i>						
Vocational Education- Basic Grants to State	N/A	84.048	1,020	0	1,782	0
Total U.S. Department of Education			<u>302,233</u>	<u>0</u>	<u>363,632</u>	<u>0</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mentally Retarded and and Developmental Disabilities:</i>						
Medical Assistance Program Medicaid Title XIX	N/A	93.778	13,559	0	13,559	0
Total U.S. Department of Human Services			<u>13,559</u>	<u>0</u>	<u>13,559</u>	<u>0</u>
Totals			<u>\$ 472,838</u>	<u>\$ 8,360</u>	<u>\$ 534,237</u>	<u>\$ 8,360</u>

The accompanying notes to this schedule are an integral part of this schedule.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

NOTE C – MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

Lockland City School District
Hamilton County
210 North Cooper Avenue
Cincinnati, Ohio 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 fiscal year ended June 30, 2003, and have issued our report thereon dated March 18, 2004, wherein we noted that we were unable to obtain supporting documentation for amounts paid in to the student activity fund. 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 are described in the accompanying schedule of findings and questioned costs as items 2003-001 through 2003-005. We also noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 18, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-003, 2003-005, 2003-006, 2003-007, and 2003-008.

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. However, of the reportable conditions described above, we consider item 2003-006 to be a material weakness. We also noted other matters involving the internal control structure over financial reporting that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 18, 2004.

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



Betty Montgomery
Auditor of State

March 18, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Lockland City School District, Lockland County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 2003-009 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowability that are applicable to its Title I program. In our opinion, it is necessary for the District to comply with the allowability requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. We also noted an instance of noncompliance that did not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 18, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-009.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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. The reportable condition described above is considered a material weakness. We also noted another matter involving the internal control over federal compliance that did not require inclusion in this report, that we have reported to the management of the District in a separate letter dated March 18, 2004.

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



Betty Montgomery
Auditor of State

March 18, 2004

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer of opinion
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified, except for Title I, which was qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, CFDA #84.010 Nutrition Cluster, CFDA# 10.550, 10.553, 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Finding for Adjustment

The Collective Bargaining Agreement between the Board of Education and OAPSE Local 295 grants the food service employees a uniform allowance of \$175.00 per fiscal year. During 2003, the District paid \$1,034 out of Fund 006 – Food Service, which includes federal funds and is not allowable. Since the District is under Provision 2 all students receive free and reduced lunches and therefore the District receives mostly federal monies for its food service program. The payment for uniform allowances is not allowable to pay with federal funds. The Catalog of Federal Domestic Assistance states the uses and use restrictions of the grant. It states that the funds are available to each State agency to reimburse participating public and nonprofit private schools for breakfasts and lunches meeting the nutritional requirements prescribed by the Secretary of Agriculture, served to eligible children. The payment for the uniform allowance should be paid out of the General Fund. In accordance with the foregoing facts a finding for adjustment is hereby issued against the District's Food Service Fund in favor of the General Fund in the amount of one thousand thirty-four (\$1,034).

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code, Section 9.38, states public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than three business days after receiving it. Only the legislative authority may adopt this policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a less amount cannot be safeguarded, the public official must then deposit the money on the next business day. The District has not adopted a policy for the deposit of public funds which follows the Ohio Revised Code. Miscellaneous receipts were not deposited in accordance with the Ohio Revised Code for eighty percent of the receipts tested. Not depositing funds properly could allow for the misappropriation of the District's funds. We recommend that District follow the Ohio Revised Code when depositing public money.

This was also reported in the management letter in our audit of the 2002 financial statements.

FINDING NUMBER 2003-003

Noncompliance Citation / Internal Control Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), states that:

No subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same... 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. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

**FINDING NUMBER 2003-003
 (Continued)**

- 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 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 three thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Education, if such expenditure is otherwise valid.

In 16% of expenditures tested, there was no certification of funds made prior to the commitment of the funds. We recommend that the District take appropriate measures to ensure compliance with this Revised Code section.

This was also reported in our audit of the 2002 financial statements.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.10, states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicated that money from one fund was used to cover the expenses of another fund. Negative fund balances and/or money from one fund used to cover expenses of another indicate that the funds were not used only for the purposes for which the fund was established. During testing, we noted the following negative balances:

	Fund 006	Fund 460	Fund 463	Fund 516	Fund 572	Fund 587	Fund 590	Fund 599
July				(\$5,330)				
Aug	(\$4,493)	(\$1,150)		(12,767)				
Sept	(28,671)			(20,701)				(\$4,863)
Oct	(52,184)			(20,701)	(\$4,623)			(4,863)
Nov	(62,366)			(5,970)				(18,024)
Dec	(62,403)		(\$13,481)		(893)			(1,908)
Jan	(85,002)		(24,971)		(9,971)			
Feb	(93,882)		(40,359)		(19,033)			
Mar	(98,956)		(39,322)	(13,169)	(44,789)		(\$18,720)	
Apr	(85,596)		(4,322)		(23,150)	(\$1,297)	(4,154)	
May	(57,157)		(4,322)	(3,654)	(26,383)	(2,145)	(11,437)	

We recommend that the District take appropriate measures to ensure compliance with this Revised Code section.

This was also reported in our audit of the 2002 financial statements.

FINDING NUMBER 2003-005

Noncompliance Citation / Internal Control Reportable Condition

Ohio Rev. Code, Section 3317.03, states (A) The superintendent of each city and exempted village school district and of each educational service center shall, for the schools under the superintendent's supervision, certify their average daily membership to the state board of education on or before the fifteenth day of October in each year for the first full school week in October the formula ADM, which consist of the average daily membership during such week. (E) In each school of each city, local, exempted village, joint vocational, and cooperative education school district there shall be maintained a record of school membership, which record shall accurately show, for each day the school is in session, the actual membership enrolled in regular day classes. For the purpose of determining average daily membership, the membership figure of any school shall not include any pupils except those pupils described by division (A) of this section. The record of membership for each school shall be maintained in such a manner that no pupil shall be counted as in membership prior to the actual date of entry in the school and also in such manner that where for any cause a pupil permanently withdraws from the school that pupil shall not be counted as in membership form and after the date of such withdrawal.

The District did not make the Education Management Information System (EMIS) documentation available upon request to support the above section of the Ohio Revised Code. Failure to submit this documentation to the department of education may result in the loss of Federal and State funding for the school. We recommend that the District file this documentation with the state and retain the records of filing.

FINDING NUMBER 2003-006

Internal Control Material Weakness

The District did not provide support for eighty-five percent of the extracurricular activities receipts. Also, nineteen percent of the receipts were not supported by sales project potential forms. These forms should be approved by the Sponsor, Principal and Superintendent and state the rates to be charged. The Board of Education should establish a detailed policy for student activities. Failure to require support for receipts could facilitate theft and misappropriation of assets. We recommend that the District follow the Auditor of State's *Guidelines for Developing Policies for Student Activity Programs* as a basis for their policies.

FINDING NUMBER 2003-007

Internal Control Reportable Condition

The following control weaknesses were noted in the computer system:

- A periodic review of access privileges is not performed.
- The District does not have a termination policy documenting the procedures to follow when an employee resigns or terminates.
- The District does not know how long HCCA retains their records.
- The District does not have a disaster recovery plan documenting its manual procedures and responsibilities necessary to aid in the restoration of business operations in the event of a disaster which temporarily or permanently disables data processing capabilities.
- The District is not aware of whether HCCA has developed a Disaster Recovery Plan. They have not received a copy of the plan and they do not understand their roles and responsibilities in the Disaster Recovery Plan.
- The District does not utilize the AUDITS or the AUDRPT reports.

**FINDING NUMBER 2003-007
(Continued)**

- The District does not review for changes to account codes, fund codes, or vendor information.
- The District did not provide documentation that they submit: Standard Validation, Excluded Reports, Included Reports, and EMRSDET Validation Report.
- The Data Accuracy Summary Report is not signed by the Principal or Treasurer and a copy is not sent to ODE.
- The District did not utilize a Treasurer's Certificate to indicate authorization and approval of payroll.

These weaknesses could result in unauthorized users having access to the computer system. We recommend that the District implement the following improvements to the computer system:

- The District should adopt a termination policy identifying the procedures to follow when an employee resigns or terminates.
- The District should ensure that the users with similar job responsibilities are not sharing a user ID and password.
- The District should request a listing of user access from the Data Acquisition site.
- The District should inquire with HCCA about the retention period for their data files.
- The District should adopt a disaster recovery plan identifying arrangements for alternative data processing on compatible hardware and software. A proper plan will reduce, as much as possible, time-consuming decision making from the period immediately following the disaster. A formal disaster recovery plan should, at a minimum, cover the following:
 1. Identification and restoration of critical applications;
 2. A written agreement for an alternative processing facility;
 3. Critical file identification and backup objectives;
 4. All documentation relating to essential systems; and
 5. A copy of the disaster recovery plan at an off-site location.
- The District should request a copy of HCCA's Disaster Recovery Plan. Once doing so, the plan should be reviewed so that the District understands their roles and responsibilities.
- The District should utilize the AUDITS report and review the changes to accounts codes, fund codes, or vendor information and should also utilize the AUDRPT report. The AUDRPT report indicates the changes made to employee standing data.
- The District should submit Standard Validation, Excluded Reports, Included Reports, and EMRSDET Validation Reports to the Ohio Department of Education. They should also submit a copy of the data accuracy summary report, which is signed by the Principal or Treasurer, to the Ohio Department of Education.
- The District should utilize the Treasurer's Certificate to indicate authorization and approval of the payroll.

FINDING NUMBER 2003-008

Internal Control Reportable Condition

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been deposited with the District. The District did not reconcile the athletic bank account since it was created and also during 2003. We were able to determine that the book balance was \$99 higher than the bank balance. Lack of timely and accurate reconciliations increase the risk of undetected errors and theft. We recommend the District properly reconcile the athletic bank account on a monthly basis. Any variances should be immediately investigated and justified. We also recommend that the athletic director and treasurer indicate review and approval of the reconciliation to promote timeliness and accuracy of reconciliations.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-009
CFDA Title and Number	CFDA 84.010 Title I
Federal Award Number / Year	2003
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

OMB cost principles Circular A-87 prescribes the cost accounting policies associated with the administration of Federal awards by local government. The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government or indirectly through a pass-through entity. The general criteria affecting allowability of costs under Federal awards are reasonable and necessary, allocable, consistency, conformity to law, regulation and sponsored agreements, transactions that reduce or offset direct or indirect costs, and cost documentation. The District could not provide documentation for eighteen expenditures totaling \$55,207 out of the \$104,032 Title I expenditures. Costs must be documented in accordance with the A-102 Common Rule as codified by the federal awarding agency. The documentation should consist of original invoices and details on any adjustments made to the District's records.

**LOCKLAND CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-10431-001	Revised Code 5705.41(D), failure to properly certify funds	No	Not Corrected – Repeated as finding number 2003-003
2002-10431-002	Revised Code 5705.10, negative fund balances	No	Not Corrected – Repeated as finding number 2003-004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 15, 2004**