



**Auditor of State
Betty Montgomery**

**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

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HIGHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
Lynchburg, Ohio 45142

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Food Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule presented is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, but is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic 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

May 16, 2006

Lynchburg Clay Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As management of the Lynchburg Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the financial statements to enhance their understanding of the School District's performance.

Financial Highlights

The assets of the Lynchburg Clay Local School District exceeded its liabilities at June 30, 2005 by \$27,105,446. Of this amount, \$5,172,007 may be used to meet the School District's ongoing financial obligations. The remaining amount represents capital assets net of related debt and net asset amounts restricted for specific purposes.

The School District's net assets decreased by \$46,697 during this fiscal year's operations.

General revenues accounted for \$8,969,299 or 83 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$1,782,850 or 17 percent of total revenues of \$10,752,149.

The School District had \$10,798,846 in expenses related to governmental activities; only \$1,782,850 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest.

Using the Basic Financial Statements

This report consists of a series of financial statements and the notes to the financial statements. These statements are organized so the reader can understand Lynchburg Clay Local School District as a whole, an entire operating entity.

The *statement of net assets* and *statement of activities* provides information about the activities of the School District as a whole, and present a longer term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements also look at the School District's major funds, with all other nonmajor funds presented in total in one column. The major funds for the Lynchburg Clay Local School District are the General Fund, the Debt Service Fund and the Food Service Fund.

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Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during 2005?” The *statement of net assets* and the *statement of activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 7. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

Governmental Funds - Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the *statement of net assets* and the *statement of activities*) and governmental *funds* is reconciled in the financial statements.

Proprietary Fund – Proprietary funds use the same basis of accounting as business-type activities. The Internal Service Fund is used to account for the medical, surgical, dental, and vision benefits provided to employees.

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Fiduciary Funds - The School District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The School District as a Whole

Recall that the *statement of net assets* provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 and 2004:

(Table 1)
Net Assets
Governmental Activities

	2005	(Restated) 2004
Assets		
Current and Other Assets	\$9,474,004	\$8,605,356
Capital Assets	22,696,977	23,666,413
Total Assets	<u>32,170,981</u>	<u>32,271,769</u>
Liabilities		
Long-Term Liabilities	2,081,749	2,183,136
Other Liabilities	3,152,373	2,936,490
Total Liabilities	<u>5,234,122</u>	<u>5,119,626</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	20,793,833	21,673,325
Restricted	1,139,606	1,042,136
Unrestricted	5,172,007	4,436,682
Total Net Assets	<u>\$27,105,446</u>	<u>\$27,152,143</u>

Table 1 is a comparison of governmental activities as of June 30, 2005 and 2004. Total assets decreased by \$100,788. Equity in Pooled Cash and Cash Equivalents increased by \$764,331. During 2005, revenues and expenditures both increased by approximately seven percent, allowing for an increase in Cash and Cash Equivalents that was consistent with fiscal year 2004. The increase in Equity in Pooled Cash and Cash Equivalents was offset by an increase of \$1,002,009 in accumulated depreciation on capital assets.

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Table 2 highlights the District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services and sales, restricted grants, contributions and interest. General Revenues include taxes, unrestricted grants, such as State foundation support, investment earnings and miscellaneous.

(Table 2)
Change in Net Assets

	Governmental Activities	
	2005	(Restated) 2004
Revenues		
Program Revenues:		
Charges for Services and Sales	\$747,124	\$706,711
Operating Grants, Contributions and Interest	1,010,358	987,774
Capital Grants and Contributions	25,368	44,450
Total Program Revenues	<u>1,782,850</u>	<u>1,738,935</u>
General Revenues:		
Property Taxes	1,820,975	1,856,779
Grants and Entitlements not Restricted to Specific Programs	6,957,273	6,448,931
Unrestricted Investment Earnings	120,702	17,462
Miscellaneous	70,349	66,449
Total General Revenues	<u>8,969,299</u>	<u>8,389,621</u>
Total Revenues	<u>\$10,752,149</u>	<u>\$10,128,556</u>

(continued)

*Lynchburg Clay Local School District
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(Table 2)
Change in Net Assets
(continued)

	Governmental Activities	
	2005	(Restated) 2004
Program Expenses		
Instruction:		
Regular	\$4,832,346	\$5,001,964
Special	941,036	823,004
Vocational	230,540	222,303
Support Services:		
Pupils	329,988	303,730
Instructional Staff	521,081	545,148
Board of Education	9,674	11,545
Administration	964,649	879,042
Fiscal	313,528	293,066
Business	38,418	30,995
Operation and Maintenance of Plant	1,031,271	949,482
Pupil Transportation	823,246	732,132
Central	15,636	12,524
Operation of Non-Instructional Services:		
Food Services	488,048	486,536
Other	3,310	2,431
Extracurricular Activities	156,976	147,467
Interest and Fiscal Charges	99,099	60,718
Total Expenses	10,798,846	10,502,087
Increase (Decrease) in Net Assets	(46,697)	(373,531)
Net Assets Beginning of Year	27,152,143	27,525,674
Net Assets End of Year	\$27,105,446	\$27,152,143

Revenues increased by \$623,593. This was due to an increase in grants and entitlements not restricted to specific programs of \$508,342, related to increases in basic State aid. In addition, unrestricted investment earnings increased by \$103,240, which was primarily due to rising interest rates during the fiscal year. These increases in revenue were offset by increases in expenditures, most significantly in support services, which was due mainly to increases in salaries and benefits during the fiscal year.

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Governmental Activities

The *statement of activities* shows the cost of program services and the charges for services and sales, grants, contributions and interest offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)
Governmental Activities

	(Restated)			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
	Instruction	\$6,003,922	(\$4,901,601)	\$6,047,271
Support Services	4,047,491	(3,840,039)	3,757,664	(3,574,011)
Operation of Non- Instructional Services	491,358	(90,021)	488,967	(142,648)
Extracurricular Activities	156,976	(85,236)	147,467	(85,150)
Interest and Fiscal Charges	99,099	(99,099)	60,718	(60,718)
Total Expenses	<u>\$10,798,846</u>	<u>(\$9,015,996)</u>	<u>\$10,502,087</u>	<u>(\$8,763,152)</u>

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,797,147 and expenditures of \$10,190,836. The net change in fund balance for the year was most significant in the General Fund, an increase of \$402,001. This was due to an increase in State foundation monies and interest, offset by overall increases in expenditures related to increases in salaries and benefits during the fiscal year.

The Debt Service Fund saw an increase in fund balance of \$58,336 due to property tax receipts for the year exceeding the annual debt payments.

The Food Service Fund had an increase in fund balance of \$117,554 due to a transfer from the General Fund.

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General Fund - Budget Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 2005, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 18, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amount.

The School District's ending unobligated cash balance was \$503,015 above the final budgeted amount in the General Fund.

For the General Fund, original budgeted revenues were \$8,946,698 and final budgeted revenues were \$8,946,673, representing a difference of only \$25. The difference between actual budget basis revenues and final budgeted revenues was \$383,411, which was due primarily to intergovernmental and interest revenues exceeding final budgeted amounts.

Original budgeted expenditures in the General Fund were \$8,750,342 and final budgeted expenditures were \$8,796,924. This represents a \$46,582 increase in estimated expenditures. The difference between actual budget basis expenditures and final expenditures was \$75,993.

Capital Assets and Debt Administration

Capital Assets

The Lynchburg Clay Local School District's investment in capital assets as of June 30, 2005 was \$22,696,977. This investment in capital assets includes land, land improvements, buildings and improvements, furniture and equipment, vehicles and books and educational media. Table 4 shows fiscal year 2005 balances compared to 2004:

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(Table 4)
Capital Assets at June 30
(Net of Depreciation)
Governmental Activities

	2005	2004
Land	\$405,668	\$405,668
Construction in Progress	0	5,800
Land Improvements	1,615,110	1,702,985
Buildings and Improvements	19,324,239	19,955,341
Furniture and Equipment	1,044,346	1,172,561
Vehicles	289,407	374,749
Books and Educational Media	18,207	49,309
Totals	\$22,696,977	\$23,666,413

Net capital assets decreased \$969,436 from the prior fiscal year, due mainly to increases in accumulated depreciation of \$1,022,009, offset by a minimal amount of additions and deletions during the fiscal year.

For more information on capital assets, refer to the note 8 to the basic financial statements.

Debt

At June 30, 2005 the School District had \$1,885,000 in bonds outstanding, with \$80,000 due within one year. Table 5 summarizes bonds outstanding:

(Table 5)
Outstanding Debt, at Fiscal Year-end
Governmental Activities

	2005	2004
General Obligation Bonds:		
1998 - School Improvement Bonds	\$1,885,000	\$1,960,000

School Improvement Bonds 1998

The School District issued \$2,330,600 in voted general obligation bonds for construction of a new elementary school, a new high school and renovations to the old high school building to be used as a middle school. The bonds were issued for a twenty-three year period with final maturity in 2021.

The School District's voted legal debt margin was \$6,488,814 with an unvoted debt margin of \$84,777 at June 30, 2005.

For more information on debt, refer to the note 14 to the basic financial statements.

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District Challenges for the Future

Lynchburg Clay Local School District's management forecasts that the financial status will continue to be healthy and stable for the next four years. While the School District continues to maintain a healthy cash balance, our projection shows our expenditures will exceed our revenue in fiscal year 2007. Therefore, certain measures are being taken to make sure this does not continue for an extended period of time.

Lynchburg Clay Local School District is heavily dependent on state funding; approximately 73% is received thru the state foundation program.

While the Ohio Supreme Court ruled in March of 1997, that Ohio's funding of public schools is unconstitutional and needs to be restructured, subsequent Court reviews of the legislature's responses have found that the state legislature has not adequately responded to the specifics of the ruling. Thus, many school districts believe Ohio's public schools continue to be funded thru an inadequate and inequitable system. The temporary solution to this problem is funding through parity aid, which is now considered unrestricted monies.

Projection of student enrollment is another issue that is hard to forecast. During the last several years, School District enrollment has shown a slight increase. Housing continues to increase in the School District. However, a significant increase in enrollment during the next several years is not expected. We feel this is due to the new homes not having children who are of school age.

The slow State and national economy is also causing financial concerns for the Lynchburg Clay Local School District and schools throughout the state and the nation. Some sources of State funding, including career technology/adult education and school bus subsidies are being reduced, while personal property tax collections are being phased out over the next five years in Ohio. Currently, there are no alternative sources of revenue to replace personal property tax collections to schools after 2011. Unless Ohio's economy takes a positive turn, the funding for Ohio's public schools may not be sufficient to finance educational programs necessary for our students.

In schools, as in any other business, funding is always a major concern. Since schools are dependent on local and state taxes for a portion of their funding, it is important that the state legislature and governor make school funding a priority. The lack of appropriate State response to the DeRolph school funding lawsuit, the poor local, State and national economy, the various student educational options, the cost of implementing the NCLB, the various student educational options and student enrollment projections all contribute to the difficult task of establishing financial projections for our District.

Lynchburg Clay Local School District continues to utilize and demonstrate fiscal responsibility by adopting balanced budget and not overspending the budgets. The Board and administrators are hopeful that public funding in Ohio is a priority for Ohio's political leaders and will permit Lynchburg Clay to continue to provide a quality education for our students.

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Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Richard Hawk, Treasurer, at Lynchburg Clay Local School District, 301 East Pearl Street, P.O. Box 515, Lynchburg, Ohio 45142.

Lynchburg Clay Local School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,061,288
Cash and Cash Equivalents With Fiscal Agents	260,714
Accrued Interest Receivable	18,127
Materials and Supplies Inventory	8,047
Intergovernmental Receivable	192,235
Taxes Receivable	1,933,593
Capital Assets:	
Land	405,668
Depreciable Capital Assets, Net	<u>22,291,309</u>
<i>Total Assets</i>	<u>32,170,981</u>
Liabilities	
Accounts Payable	39,569
Accrued Wages and Benefits Payable	784,752
Intergovernmental Payable	228,164
Deferred Revenue	1,746,380
Matured Compensated Absences Payable	50,861
Early Retirement Incentive Payable	6,856
Accrued Interest Payable	7,961
Claims Payable	119,243
Long-Term Liabilities:	
Due Within One Year	122,683
Due in More Than One Year	<u>1,959,066</u>
<i>Total Liabilities</i>	<u>5,065,535</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	20,793,833
Restricted for:	
Capital Projects	62,093
Debt Service	740,883
Set-Asides	30,409
Other Purposes	306,221
Unrestricted	<u>5,172,007</u>
<i>Total Net Assets</i>	<u><u>\$27,105,446</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Governmental Activities	Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		
Governmental Activities:					
Instruction:					
Regular	\$4,832,346	\$399,863	\$102,789	\$2,318	(\$4,327,376)
Special	941,036	7,359	522,846	0	(410,831)
Vocational	230,540	2,867	64,279	0	(163,394)
Support Services:					
Pupils	329,988	0	55,805	0	(274,183)
Instructional Staff	521,081	0	99,876	0	(421,205)
Board of Education	9,674	0	0	0	(9,674)
Administration	964,649	0	222	0	(964,427)
Fiscal	313,528	0	249	0	(313,279)
Business	38,418	0	0	0	(38,418)
Operation and Maintenance of Plant	1,031,271	0	7,470	23,050	(1,000,751)
Pupil Transportation	823,246	0	15,780	0	(807,466)
Central	15,636	0	5,000	0	(10,636)
Operation of Non-Instructional Services:					
Food Services	488,048	271,305	130,032	0	(86,711)
Other	3,310	0	0	0	(3,310)
Extracurricular Activities	156,976	65,730	6,010	0	(85,236)
Interest and Fiscal Charges	99,099	0	0	0	(99,099)
Total Governmental Activities	\$10,798,846	\$747,124	\$1,010,358	\$25,368	(9,015,996)
General Revenues:					
Property Taxes Levied for:					
General Purposes					1,616,163
Debt Service					204,812
Grants and Entitlements not					
Restricted to Specific Programs					6,957,273
Tuition and Fees					
Unrestricted Investment Earnings					120,702
Miscellaneous					70,349
Transfers					
Total General Revenues					8,969,299
Change in Net Assets					(46,697)
Net Assets Beginning of Year - Restated (Note 3)					27,152,143
Net Assets End of Year					\$27,105,446

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District

Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Food Service	All Other Governmental	Total Governmental
Assets					
Equity in Pooled Cash and Cash Equivalents	\$5,628,799	\$732,275	\$5,705	\$393,491	\$6,760,270
Materials and Supplies Inventory	0	0	8,047	0	8,047
Accrued Interest Receivable	18,127	0	0	0	18,127
Interfund Receivable	122,005	0	0	0	122,005
Intergovernmental Receivable	0	0	34,678	130,441	165,119
Property Taxes Receivable	1,677,869	213,003	0	42,721	1,933,593
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	68,294	0	0	0	68,294
<i>Total Assets</i>	<u>\$7,515,094</u>	<u>\$945,278</u>	<u>\$48,430</u>	<u>\$566,653</u>	<u>\$9,075,455</u>
Liabilities					
Accounts Payable	\$34,552	\$0	\$0	\$5,017	\$39,569
Accrued Wages and Benefits Payable	726,380	0	26,640	31,732	784,752
Matured Compensated Absences Payable	50,454	0	407	0	50,861
Early Retirement Incentive Payable	6,856	0	0	0	6,856
Interfund Payable	0	0	31,938	90,067	122,005
Intergovernmental Payable	212,544	0	13,361	2,259	228,164
Deferred Revenue	1,570,802	201,424	0	85,700	1,857,926
<i>Total Liabilities</i>	<u>2,601,588</u>	<u>201,424</u>	<u>72,346</u>	<u>214,775</u>	<u>3,090,133</u>
Fund Balances					
Reserved for Encumbrances	187,297	346	88	157,570	345,301
Reserved for Property Taxes	116,268	11,579	0	2,824	130,671
Reserved for Budget Stabilization	30,409	0	0	0	30,409
Reserved for Bus Purchases	37,885	0	0	0	37,885
Unreserved:					
Undesignated, Reported in:					
General Fund	4,541,647	0	0	0	4,541,647
Special Revenue Funds (Deficit)	0	0	(24,004)	189,416	165,412
Debt Service Fund	0	731,929	0	0	731,929
Capital Projects Funds	0	0	0	2,068	2,068
<i>Total Fund Balances (Deficit)</i>	<u>4,913,506</u>	<u>743,854</u>	<u>(23,916)</u>	<u>351,878</u>	<u>5,985,322</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,515,094</u>	<u>\$945,278</u>	<u>\$48,430</u>	<u>\$566,653</u>	<u>\$9,075,455</u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances \$5,985,322

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	405,668	
Other Capital Assets	31,065,224	
Accumulated depreciation	(8,773,915)	
Total capital assets	22,696,977	22,696,977

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	56,542	
Interest	9,201	
Intergovernmental	45,803	
	111,546	111,546

The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 401,311

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(1,885,000)	
Accrued interest on bonds	(7,961)	
Capital leases	(18,144)	
Compensated absences	(178,605)	
	(2,089,710)	(2,089,710)

Net Assets of Governmental Activities \$27,105,446

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Food Service	All Other Governmental	Total Governmental
Revenues					
Property Taxes	\$1,576,499	\$209,185	\$0	\$37,763	\$1,823,447
Intergovernmental	7,280,552	27,459	130,032	576,874	8,014,917
Interest	109,832	0	0	0	109,832
Tuition and Fees	405,539	0	0	0	405,539
Rent	4,550	0	0	0	4,550
Extracurricular Activities	0	0	0	65,730	65,730
Gifts and Donations	8,418	0	0	23,060	31,478
Customer Sales and Services	0	0	271,305	0	271,305
Miscellaneous	24,913	0	1,262	44,174	70,349
<i>Total Revenues</i>	<u>9,410,303</u>	<u>236,644</u>	<u>402,599</u>	<u>747,601</u>	<u>10,797,147</u>
Expenditures					
Current:					
Instruction:					
Regular	4,216,862	0	0	137,341	4,354,203
Special	621,514	0	0	281,226	902,740
Vocational	208,621	0	0	2,271	210,892
Support Services:					
Pupils	263,705	0	0	50,175	313,880
Instructional Staff	392,432	0	0	132,673	525,105
Board of Education	9,816	0	0	0	9,816
Administration	896,375	0	0	13,081	909,456
Fiscal	330,339	6,140	0	2,186	338,665
Business	38,418	0	0	0	38,418
Operation and Maintenance of Plant	993,989	0	3,316	30,158	1,027,463
Pupil Transportation	778,984	0	0	1,204	780,188
Central	5,213	0	0	7,443	12,656
Operation of Non-Instructional Services:					
Food Services	0	0	411,346	0	411,346
Other	3,310	0	0	0	3,310
Extracurricular Activities	94,244	0	0	69,139	163,383
Debt Service:					
Principal Retirement	14,944	75,000	0	0	89,944
Interest and Fiscal Charges	2,203	97,168	0	0	99,371
<i>Total Expenditures</i>	<u>8,870,969</u>	<u>178,308</u>	<u>414,662</u>	<u>726,897</u>	<u>10,190,836</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>539,334</u>	<u>58,336</u>	<u>(12,063)</u>	<u>20,704</u>	<u>606,311</u>
Other Financing Sources (Uses)					
Transfers In	0	0	129,617	7,716	137,333
Transfers Out	(137,333)	0	0	0	(137,333)
<i>Total Other Financing Sources (Uses)</i>	<u>(137,333)</u>	<u>0</u>	<u>129,617</u>	<u>7,716</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	402,001	58,336	117,554	28,420	606,311
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>4,511,505</u>	<u>685,518</u>	<u>(141,470)</u>	<u>323,458</u>	<u>5,379,011</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$4,913,506</u>	<u>\$743,854</u>	<u>(\$23,916)</u>	<u>\$351,878</u>	<u>\$5,985,322</u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$606,311

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	52,573	
Depreciation expense	(1,022,009)	
Excess of capital outlay under depreciation expense		(969,436)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	(2,472)	
Interest	9,201	
Intergovernmental	(53,396)	
		(46,667)

The internal service fund used by management to charge the cost of insurance to individual funds is reported in the entity-wide statement of activities 182,141

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Bond payments	75,000	
Capital lease payments	14,944	
Total long-term debt repayment		89,944

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences payable	11,443	
Decrease in accrued interest payable	272	
Decrease in intergovernmental payable	79,295	
Total decrease		91,010

Change in Net Assets of Governmental Activities (\$46,697)

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,597,224	\$1,589,208	\$1,583,059	(\$6,149)
Intergovernmental	6,813,200	6,821,216	7,184,638	363,422
Interest	78,032	78,032	111,307	33,275
Tuition and Fees	410,252	410,227	405,569	(4,658)
Rent	12,200	12,200	12,550	350
Gifts and Donations	350	350	8,418	8,068
Miscellaneous	35,440	35,440	24,543	(10,897)
<i>Total Revenues</i>	<u>8,946,698</u>	<u>8,946,673</u>	<u>9,330,084</u>	<u>383,411</u>
Expenditures				
Current:				
Instruction:				
Regular	4,204,147	4,194,697	4,186,831	7,866
Special	514,515	517,724	611,403	(93,679)
Vocational	211,510	211,510	209,496	2,014
Support Services:				
Pupils	293,037	295,805	271,215	24,590
Instructional Staff	393,519	391,174	386,407	4,767
Board of Education	10,230	10,230	10,638	(408)
Administration	906,822	911,692	906,107	5,585
Fiscal	345,286	349,790	341,030	8,760
Business	38,650	46,650	39,301	7,349
Operation and Maintenance of Plant	1,176,184	1,194,360	998,930	195,430
Pupil Transportation	547,146	572,921	811,453	(238,532)
Central	12,800	3,875	5,323	(1,448)
Operation of Non-Instructional Services:				
Other	2,461	2,461	3,356	(895)
Extracurricular Activities	93,760	93,760	91,427	2,333
Capital Outlay	275	275	0	275
<i>Total Expenditures</i>	<u>8,750,342</u>	<u>8,796,924</u>	<u>8,872,917</u>	<u>(75,993)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>196,356</u>	<u>149,749</u>	<u>457,167</u>	<u>307,418</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	61,050	8,500	96,367	87,867
Advances In	75,550	75,550	41,550	(34,000)
Transfers Out	(100,000)	(74,565)	(37,333)	37,232
Refund of Prior Year Receipts	(3,130)	(3,130)	(127)	3,003
Advances Out	(25,000)	(100,000)	(98,005)	1,995
Other Financing Uses	0	(99,500)	0	99,500
<i>Total Other Financing Sources (Uses)</i>	<u>8,470</u>	<u>(193,145)</u>	<u>2,452</u>	<u>195,597</u>
<i>Net Change in Fund Balance</i>	204,826	(43,396)	459,619	503,015
<i>Fund Balance Beginning of Year</i>	4,858,699	4,858,699	4,858,699	0
<i>Prior Year Encumbrances Appropriated</i>	<u>209,653</u>	<u>209,653</u>	<u>209,647</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$5,273,178</u>	<u>\$5,024,956</u>	<u>\$5,527,965</u>	<u>\$503,015</u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Food Service Fund
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$105,753	\$106,620	\$116,136	\$9,516
Customer Sales and Services	296,360	281,543	271,305	(10,238)
Miscellaneous	540	540	1,218	678
<i>Total Revenues</i>	<u>402,653</u>	<u>388,703</u>	<u>388,659</u>	<u>(44)</u>
Expenditures				
Current:				
Operation and Maintenance of Plant	5,330	3,832	3,386	446
Operation of Non-Instructional Services:				
Food Services	416,950	424,976	400,360	24,616
<i>Total Expenditures</i>	<u>422,280</u>	<u>428,808</u>	<u>403,746</u>	<u>25,062</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(19,627)</u>	<u>(40,105)</u>	<u>(15,087)</u>	<u>25,018</u>
Other Financing Sources (Uses)				
Transfers In	0	0	29,617	29,617
Refund of Prior Year Expenditures	0	0	44	44
Advances In	40,000	40,000	31,938	(8,062)
Advances Out	0	0	(41,000)	(41,000)
<i>Total Other Financing Sources (Uses)</i>	<u>40,000</u>	<u>40,000</u>	<u>20,599</u>	<u>(19,401)</u>
<i>Net Change in Fund Balance</i>	20,373	(105)	5,512	5,617
<i>Fund Balance Beginning of Year</i>	(1,340)	(1,340)	(1,340)	0
<i>Prior Year Encumbrances Appropriated</i>	<u>1,445</u>	<u>1,445</u>	<u>1,445</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$20,478</u></u>	<u><u>\$0</u></u>	<u><u>\$5,617</u></u>	<u><u>\$5,617</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2005

	<u>Self-Insurance</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$232,724
Cash and Cash Equivalents with Fiscal Agent	260,714
Intergovernmental Receivable	<u>27,116</u>
<i>Total Assets</i>	520,554
<u>Liabilities</u>	
Claims Payable	<u>119,243</u>
<u>Net Assets</u>	
Unrestricted	<u><u>\$401,311</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Self-Insurance
<u>Operating Revenues</u>	
Charges for Services	\$1,092,604
<u>Operating Expenses</u>	
Purchased Services	100,731
Claims	805,596
Other	5,805
<i>Total Operating Expenses</i>	912,132
<i>Net Income</i>	180,472
<u>Non-Operating Revenues</u>	
Interest	1,669
<i>Change in Net Assets</i>	182,141
<i>Net Assets at Beginning of Year</i>	219,170
<i>Net Assets at End of Year</i>	\$401,311

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	<u>Self-Insurance</u>
<i>Increase in Cash and Cash Equivalents</i>	
<u>Cash Flows from Operating Activities</u>	
Cash Received from Quasi-External Transactions with Other Funds	\$1,092,604
Cash Payments to Suppliers for Goods and Services	(100,731)
Cash Payments for Claims	(795,038)
Cash Payments for Other Operating Expenses	(5,805)
<i>Net Cash Provided by Operating Activities</i>	191,030
<u>Cash Flows from Noncapital Financing Activities</u>	
Repayment of Loans from Other Governments	43,071
Short-Term Loans to Other Governments	(27,116)
<i>Net Cash Provided by Noncapital Financing Activities</i>	15,955
<u>Cash Flows from Investing Activities</u>	
Interest	1,850
<i>Increase in Cash and Cash Equivalents</i>	208,835
<i>Cash and Cash Equivalents at Beginning of Year</i>	284,603
<i>Cash and Cash Equivalents at End of Year</i>	\$493,438
Reconciliation of Operating Income to Net Cash	
<u>Provided by Operating Activities</u>	
Operating Income	\$180,472
Adjustments to Reconcile Operating Income to	
<u>Net Cash Provided by Operating Activities</u>	
Increase in Claims Payable	10,558
<i>Net Cash Provided by Operating Activities</i>	\$191,030

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$141,201	\$18,944
Liabilities		
Undistributed Monies	0	\$18,944
Net Assets		
Held in Trust for Scholarships	141,201	
<i>Total Net Assets</i>	\$141,201	

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Donations	\$141,021
Interest	180
<i>Total Additions</i>	141,201
<i>Change in Net Assets</i>	141,201
<i>Net Assets at Beginning of Year</i>	0
<i>Net Assets at End of Year</i>	\$141,201

See accompanying notes to the basic financial statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Lynchburg Clay Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 113 square miles. It is located in Highland, Clinton and Brown Counties, and includes all of the Villages of Lynchburg, Buford, and Dodson and portions of Hamer, Union and White Oak Townships. It is staffed by 60 non-certificated employees, 77 certificated personnel and 7 administrative employees who provide services to 1,301 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, one claims servicing pool, and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, the Ross County School Employees Insurance Consortium, the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lynchburg Clay Local School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Food Service Fund - The Food Service Fund is used to account for financial transactions related to the School District's food service operations.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund – Internal Service Funds account for the financing of services provided by one department or agency to the other departments or agencies of the School District. The Internal Service Fund is used to account for the medical, surgical, dental, and vision benefits provided to employees.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenditures and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statements and the financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions

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. “Measurable” means the amount of the transaction can be determined, and “available” means that the resources are collectible 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 School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School 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 (See Note 6). 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, grants, and interest.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations at the function and object level within each fund.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in effect at the time the final appropriations were passed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

The School District participates in a claims servicing pool that pays employee health insurance claims on the School District's behalf. The balance of the School District's funds held by the claims administrator and the fiscal agent at June 30, 2005, is presented as "Cash and Cash Equivalents with Fiscal Agents" on the balance sheet.

During fiscal year 2005, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal National Mortgage Association Bonds and Medium Term Notes, a negotiable certificate of deposit and a repurchase agreement. Except for nonparticipation investment contracts, investments are reported at fair value which is based on quoted market price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$109,832, which includes \$21,565 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as equity in pooled cash and cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of purchased and donated food held for resale and consumable supplies.

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture and Equipment	20 years
Vehicles	8 years
Books and Educational Media	6 years

I. Interfund Balances

On the fund financial statements, short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable." These amounts are eliminated in the governmental activities column on the statement of net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees have accumulated leave are paid. The noncurrent portion of the liability is not reported.

The entire compensated absences liability is reported on the government-wide financial statements.

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as a liability on the governmental fund financial statements when due.

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund are amounts required by statute to be set aside by the School District to create a reserve for budget stabilization and unexpended revenues restricted for bus purchases. See Note 17 for additional information regarding set-asides.

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes, budget stabilization and bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set aside by statute to protect against cyclical changes in revenues and expenditures

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$1,139,606 of restricted net assets, of which \$1,018,510 are restricted by enabling legislation.

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.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For fiscal year 2005, the School District has implemented *GASB Statement No. 40, “Deposit and Investment Risk Disclosures”*, *GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”* and *GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”*.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the School District’s financial statements for fiscal year 2005.

B. Restatement of Net Assets

During fiscal year 2005, it was determined that long-term liabilities due within one year and due in more than one year were overstated in relation to accruals for compensated absences. This resulted in a restatement of long-term liabilities at June 30, 2004. In addition, it was noted that capital assets were overstated in the prior year. The restatement of each of these items had the following effect on the net assets of the School District:

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (Continued)

	<u>Governmental Activities</u>
Net Assets, June 30, 2004, as reported	\$27,400,981
Restatement of Long-Term Liabilities	267,283
Restatement of Capital Assets	(516,121)
Net Assets, June 30, 2004, as restated	\$27,152,143

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is 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, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual for the General Fund and Food Service Special Revenue Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and the Food Service Special Revenue Fund.

	Net Change in Fund Balance	
	General	Food Service
GAAP Basis	\$402,001	\$117,554
Adjustments:		
Revenue Accruals	23,442	(13,896)
Net Decrease in Fair Market Value of Investments Fiscal Year 2005	(7,294)	0
Expenditure Accruals	219,668	11,004
Encumbrances	(221,743)	(88)
Advances	(56,455)	(9,062)
Transfers	100,000	(100,000)
Budget Basis	\$459,619	\$5,512

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,360,292 of the School District's bank balance of \$2,582,468 was exposed to custodial credit risk because it was uninsured. However, it was collateralized by securities held by the pledging financial institution. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the School District had the following investments, which are in an internal investment pool:

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$154,276	Average 33 Days
Federal Home Loan Bank Bonds	1,723,756	Average less than two years
Federal Home Loan Mortgage Corporation Medium Term Notes	492,765	Less than two years
Federal National Mortgage Association Bonds	490,625	Less than one year
Federal National Mortgage Association Medium Term Notes	1,286,971	Average less than one year
Negotiable Certificate of Deposit	15,000	Less than one year
Repurchase Agreement	650,740	One day
Total Investments	<u>\$4,814,133</u>	

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

STAROhio carries a rating of AAAm by Standard and Poor's. The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, and Federal National Mortgage Association Bonds and Medium Term Notes carry ratings of Aaa by Moodys. The negotiable certificate of deposit is insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificate of deposit is, therefore, not subject to credit risk. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, and Federal National Mortgage Association Bonds and Medium Term Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 36 percent is invested in Federal Home Loan Bank Bonds and 27 percent is invested in Federal National Mortgage Association Medium Term Notes.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland, Clinton and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations.

The amount available as an advance at June 30, 2005 was \$116,268 in the General Fund, \$11,579 in the Debt Service Fund, and \$2,824 in the Classroom Facilities Fund. The amount available as an advance at June 30, 2004, was \$22,828 in the General Fund, \$24,023 in the Debt Service fund, and \$2,984 in the Classroom Facilities Fund.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES (Continued)

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$73,303,130	89.47%	\$75,816,830	89.43%
Public Utility	3,593,400	4.39%	3,922,250	4.63%
Tangible Personal Property	5,034,722	6.14%	5,038,248	5.94%
Total Assessed Value	<u>\$81,931,252</u>	<u>100.00%</u>	<u>\$84,777,328</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$28.00		 \$28.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of interest, interfund, intergovernmental grants, and property taxes. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Food Service - Federal Lunch Reimbursement	\$34,678
Ohio Reads	6,265
Student Reading Intervention	24,632
Vocational Equipment Grant	177
Title II-A	8,791
Title VI-B Grant	41,848
Title I Grant	43,143
Title V Grant	1,286
Drug Free Schools Grant	3,206
Miscellaneous Federal Grants	1,093
Short-Term Loans to Other Governments	27,116
Total Intergovernmental Receivable	<u>\$192,235</u>

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004 <u>Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance 6/30/2005 <u></u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$405,668	\$0	\$0	\$405,668
Construction in Progress	5,800	0	(5,800)	0
Total Capital Assets, Not Being Depreciated	<u>411,468</u>	<u>0</u>	<u>(5,800)</u>	<u>405,668</u>
Capital Assets Being Depreciated				
Land Improvements	2,172,452	9,926	0	2,182,378
Buildings and Improvements	24,645,208	0	0	24,645,208
Furniture and Equipment	2,478,070	40,666	(15,512)	2,503,224
Vehicles	1,106,662	7,781	0	1,114,443
Books and Educational Media	619,971	0	0	619,971
Total Capital Assets, Being Depreciated	<u>31,022,363</u>	<u>58,373</u>	<u>(15,512)</u>	<u>31,065,224</u>
Less Accumulated Depreciation:				
Land Improvements	(469,467)	(97,801)	0	(567,268)
Buildings and Improvements	(4,689,867)	(631,102)	0	(5,320,969)
Furniture and Equipment	(1,305,509)	(168,881)	15,512	(1,458,878)
Vehicles	(735,463)	(93,123)	0	(828,586)
Books and Educational Media	(567,112)	(31,102)	0	(598,214)
Total Accumulated Depreciation	<u>(7,767,418)</u>	<u>(1,022,009) *</u>	<u>15,512</u>	<u>(8,773,915)</u>
Total Capital Assets Being Depreciated, Net	<u>23,254,945</u>	<u>(963,636)</u>	<u>0</u>	<u>22,291,309</u>
Governmental Activities Capital Assets, Net	<u>\$23,666,413</u>	<u>(\$963,636)</u>	<u>(\$5,800)</u>	<u>\$22,696,977</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$562,903
Special	54,980
Vocational	29,302
Support Services:	
Pupils	19,373
Instructional Staff	32,646
Administration	79,567
Fiscal	698
Operation and Maintenance of Plant	46,405
Pupil Transportation	94,370
Central	2,980
Operation of Non-Instruction Services:	
Food Services	96,510
Extracurricular Activities	2,275
Total Depreciation Expense	<u>\$1,022,009</u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Indiana Insurance for property insurance and with the Ohio School Plan for fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents - at replacement cost (\$1,000 deductible) (\$5,000 building, \$250 contents deductible)	\$23,553,263
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The School District, along with other school districts in Ohio, participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 16). The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Aggregate Limit	\$3,000,000
Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense	1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Medical Expense Limit - Per Person/Accident	10,000
Medical Expense Limit - Each Accident	10,000
Fire Damage Limit - Any One Event	500,000
Employer's Liability:	
Bodily Injury - Each Accident	1,000,000
Bodily Injury - Endorsement Limit	1,000,000
Bodily Injury by Disease - Each Employee	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit (\$5,000 deductible)	1,000,000
Errors and Omissions Aggregate Limit	2,000,000
Employment Practices Injury Limit (\$5,000 deductible)	1,000,000
Employment Practices Aggregate Limit	2,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	1,000,000
Automobile Liability (deductibles \$500 collision, \$250 comprehensive)	1,000,000

NOTE 9 - RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant change in coverage from the prior fiscal year.

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program.

C. Employee Medical, Vision and Dental Benefits

Medical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool, consisting of sixteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent, who in turn pays the claims on the School District's behalf. The claims liability of \$119,243 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issue,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2004	\$113,910	\$773,168	\$778,393	\$108,685
2005	108,685	805,596	795,038	119,243

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$134,649, \$108,522, and \$126,443 respectively; 54.37 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

NOTE 10 - DEFINED BENEFIT PENSION PLANS (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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$501,157, \$478,630, and \$487,096, respectively; 83.62 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,446 made by the School District and \$11,212 made by the plan members.

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, five Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$38,551 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$68,794.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Each year, employees are given the option to request payment for up to ten days of vacation leave at fiscal year-end.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 52 days.

B. Special Termination Benefits

The School District offers an Early Notice of Retirement Incentive program to all employees who are eligible to retire from either SERS or STRS. The employees who give written notice of the intended retirement date on or before March 1st of the year in which they intend to retire will receive an incentive payment. The employees may exercise this option in the first, second, or third year of eligibility for retirement. The incentive amount is calculated by multiplying an average of the last three full years' wages by the years of service and a factor rate. The factor rate is .005 for the first year, .0033 for the second year, and .0025 for the third year. Payment is made on June 1 of the year in which the employee retires.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - EMPLOYEE BENEFITS (Continued)

C. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through the Ohio Educational Employees Life Insurance Trust.

NOTE 13 - CAPITAL LEASES—LESSEE DISCLOSURE

In prior years, the School District entered into lease agreements for copiers. The terms of each agreement provide an option to purchase the equipment. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$70,198, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2005 totaled \$14,944.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Copiers	\$70,198
Less: Accumulated Depreciation	(50,655)
Total	\$19,543

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Fiscal year Ending June 30,	Total Payments
2006	\$15,201
2007	2,527
2008	1,159
2009	581
Total	19,468
Less: Amount Representing Interest	(1,324)
Present Value of Minimum Lease Payments	\$18,144

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Amounts Outstanding 6/30/04 (Restated)	Additions	Deductions	Amounts Outstanding 6/30/05	Amounts Due in One Year
<u>Governmental Activities:</u>					
1998 School Improvement					
Bonds, 3.8%	\$1,960,000	\$0	\$75,000	\$1,885,000	\$80,000
Capital Leases	33,088	0	14,944	18,144	14,248
Compensated Absences	190,048	52,151	63,594	178,605	28,435
Total Governmental Activities	<u>\$2,183,136</u>	<u>\$52,151</u>	<u>\$153,538</u>	<u>\$2,081,749</u>	<u>\$122,683</u>

School Improvement Bonds - In July 1998, the School District issued school improvement bonds in the amount of \$2,330,600 for the construction of a new elementary school, a new high school and renovations to the old high school building to be used as a middle school. The bonds were issued for a twenty-three year period with final maturity in 2021. The bonds will be paid from the Debt Service Fund.

Capital lease obligations will be paid from the General Fund. Compensated absences will be paid from the General, Title VI-B, Title I, Title VI-R and Food Service funds.

The School District's overall legal debt margin was \$6,488,814 with an unvoted debt margin of \$84,777 at June 30, 2005.

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2005, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2006	\$80,000	\$93,776	\$173,776
2007	85,000	90,125	175,125
2008	90,000	86,209	176,209
2009	90,000	82,136	172,136
2010	95,000	77,904	172,904
2011-2015	555,000	303,942	858,942
2016-2020	725,000	135,375	860,375
2021	165,000	4,125	169,125
Total	<u>\$1,885,000</u>	<u>\$873,592</u>	<u>\$2,758,592</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. South Cental Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and a representative of the fiscal agent. The School District paid SCOCA \$62,342 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio 45177.

C. Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the School District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, Ohio, 45241-1581.

NOTE 16 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

A. Ross County School Employees Insurance Consortium

The School District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of sixteen school districts within Ross County and its surrounding area. Medical/surgical, dental, and vision is administered through a third party administrator, Klais and Company. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

The GRP's business and affairs are conducted by a five member board of directors. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School 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 purposes in future years.

The School District is no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers' Compensation prior to April 10, 2001, which must be retained for budget stabilization or spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	(\$315,630)	\$0	\$30,409
Current Year Set-aside Requirement	176,112	176,112	0
Current Year Offsets	0	(42,453)	0
Qualifying Disbursements	(246,772)	(580,573)	0
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$386,290)</u>	<u>\$0</u>	<u>\$30,409</u>
Set-aside Reserve Balance as of June 30, 2005			<u>\$30,409</u>

Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future fiscal years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 - INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2005, receivables and payables that resulted from various interfund transactions were as follows:

		Receivable
		General Fund
Payable	Food Service Fund	\$31,938
	All Other Governmental Funds	90,067
	Total	\$122,005

The amounts due to the General Fund from the Food Service Fund and All Other Governmental Funds are the result of the School District moving unrestricted balances to support programs and projects accounted for in other funds. The General Fund will be reimbursed when funds become available in the Food Service Fund and All Other Governmental Funds.

B. Interfund Transfers

Transfers made during the fiscal year ended June 30, 2005, were as follows:

		Transfer From
		General Fund
Transfer To	Food Service	\$129,617
	All Other Governmental Funds	7,716
	Total	\$137,333

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 19 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 adverse effect on the overall financial position of the School District at June 30, 2005.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 19 – CONTINGENCIES (Continued)

B. Litigation

The School District is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

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**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY, OHIO**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$ -	\$ 30,644	\$ -	\$ 30,586
National School Lunch Program	LL-P4-05	10.555	111,675	-	111,675	0
	LL-P4-04					
Total Nutrition Cluster			111,675	30,644	111,675	30,586
Total U.S. Department of Agriculture			111,675	30,644	111,675	30,586
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education.</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-05	84.027	183,758	-	198,393	0
	6B-SF-04					
	6B-SF-03P					
Special Education Grants to States (Title VI B) Preschool	PG-S1-05	84.173	4,881	-	5,008	0
	PG-S1-04					
Total Special Education Cluster			188,638	-	203,401	0
Comprehensive School Reform Demonstration	RF-S3-04	84.332	47,404	-	50,136	0
Grants to Local Educational Agencies	C1-S1-05	84.010	144,600	-	145,991	0
	C1-S1-04					
Innovative Educational Program	C2-S1-05	84.298	3,895	-	5,547	0
Technology State Formula Grants	TJ-S1-05	84.318	5,765	-	4,325	0
Improving Teacher Quality State Grants	TR-S1-05	84.367	75,040	-	73,562	0
Drug-Free Schools Grant	DR-S1-05	84.186	2,539	-	6,758	0
Total Department of Education			467,881	-	489,720	-
Totals			\$ 579,556	\$ 30,644	\$ 601,395	\$ 30,586

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

**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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



**Auditor of State
Betty Montgomery**

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

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
Lynchburg, Ohio 45142

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 16, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 16, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

May 16, 2006



Auditor of State Betty Montgomery

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

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
Lynchburg, Ohio 45142

To the Board of Education:

Compliance

We have audited the compliance of Lynchburg-Clay Local School District, Highland 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 apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Lynchburg-Clay Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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

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

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

Betty Montgomery
Auditor of State

May 16, 2006

**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code, Section 149.351, provides that all records are the property of the public office and shall not be damaged or disposed of. The District did not present 25% of the vouchers and related invoices and requisitions selected for testing.	Yes	Corrective action taken.



**Auditor of State
Betty Montgomery**

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800-282-0370

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**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT
HIGHLAND 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
JULY 6, 2006**