

Clay Local School District

Scioto County, Ohio

Regular Audit

July 1, 2006 Through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA
Auditor of State

Board of Education
Clay Local School District
44 Clay High Street
Portsmouth, Ohio 45662

We have reviewed the *Independent Auditor's Report* of the Clay Local School District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2008

This Page is Intentionally Left Blank.

Clay Local School District
Scioto County, Ohio

Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	19
Notes to the Basic Financial Statements	20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	47

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants
of Certified Public Accountants

Ohio Society

Independent Auditor's Report

Members of the Board
Clay Local School District
44 Clay High Street
Portsmouth, OH 45662

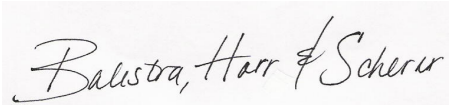
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay Local School District (the School District), Scioto County, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the School District, as of June 30, 2007, and the respective changes in financial position and the respective budgetary comparison for the general 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 December 28, 2007 on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Balestra, Harr & Scherer, CPAs, Inc.
December 28, 2007

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

As management of the 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, 2007. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's performance.

Financial Highlights

- Net assets of governmental activities increased \$220,446, which represents a 13 percent increase from fiscal year 2006.
- Total assets of governmental activities increased by \$312,553. Total liabilities of governmental activities increased by \$92,107.
- General revenues accounted for \$3,923,096, or 66 percent of total revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,048,654 or 34 percent of total revenues of \$5,971,750.
- The School District had \$5,751,304 in expenses related to governmental activities; only \$2,048,654 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily grants, entitlements and property taxes) of \$3,923,096 were adequate to provide for these programs.

Using the Basic Financial Statements

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term 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 Clay Local School District are the General Fund and the Permanent Improvement Capital Projects Fund.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

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 fiscal year 2007?”

The Statement of Net Assets and the Statements 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 8. 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 Statements of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – The School District's fiduciary funds are a private purpose trust fund and an agency 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. Fiduciary funds use the accrual basis of accounting.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

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 fiscal years 2007 and 2006:

(Table 1)
Net Assets

	<u>Governmental Activities</u> 2007	<u>2006</u>	Increase/ (Decrease)
Assets			
Current Assets	\$2,557,203	\$2,440,470	\$116,733
Capital Assets	1,617,585	1,421,765	195,820
Total Assets	<u>4,174,788</u>	<u>3,862,235</u>	312,553
Liabilities			
Long-Term Liabilities	755,188	629,717	125,471
Other Liabilities	1,516,689	1,550,053	(33,364)
Total Liabilities	<u>2,271,877</u>	<u>2,179,770</u>	92,107
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,203,585	1,106,765	96,820
Restricted	217,158	142,904	74,254
Unrestricted	482,168	432,796	49,372
Total Net Assets	<u>\$1,902,911</u>	<u>\$1,682,465</u>	\$220,446

Current assets increased \$116,733 due mainly to an increase in Intergovernmental Receivables of \$90,352. This increase resulted from various grants that were not received in full prior to fiscal year-end. Total liabilities increased \$92,107, which is primarily due to the net effect of the current year payment made on the notes payable and a new capital lease.

Invested in Capital Assets, Net of Related Debt for governmental activities increased by \$96,820 due mainly to the current fiscal year additions to capital assets exceeding current fiscal year depreciation, capital asset deletions, and principal payments on outstanding debt. Restricted Net Assets for governmental activities increased by \$74,254, which is due largely to an increase in intergovernmental revenue resulting primarily from the CORE and Title II-A grants received during the current fiscal year. Unrestricted Net Assets for governmental activities increased by \$49,372 primarily due to increased revenues relating to tuition and fees from State foundation and excess costs monies.

Table 2 shows the highlights of the School 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.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

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

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

(Table 2)
Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006	Increase/ (Decrease)
Revenues			
Program Revenues:			
Charges for Services	\$1,312,771	\$1,254,640	\$58,131
Operating Grants, Contributions, and Interest	730,426	651,732	78,694
Capital Grants and Contributions	5,457	63,553	(58,096)
Total Program Revenues	<u>2,048,654</u>	<u>1,969,925</u>	<u>78,729</u>
General Revenues:			
Property Taxes Levied for:			
General Purposes	949,973	967,477	(17,504)
Capital Outlay	187,898	190,669	(2,771)
Grants and Entitlements not			
Restricted to Specific Programs	2,522,549	2,567,392	(44,843)
Contributions and Donations	21,229	3,243	17,986
Investment Earnings	61,299	45,332	15,967
Gain on Sale of Capital Assets	1,891	0	1,891
Miscellaneous	178,257	112,377	65,880
Total General Revenues	<u>3,923,096</u>	<u>3,886,490</u>	<u>36,606</u>
Total Revenues	<u>\$5,971,750</u>	<u>\$5,856,415</u>	<u>\$115,335</u>

(continued)

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

(Table 2)
Change in Net Assets
(continued)

	Governmental Activities 2007	Governmental Activities 2006	Increase/ (Decrease)
Program Expenses			
Instruction:			
Regular	\$2,930,474	\$2,647,354	\$283,120
Special	423,292	524,725	(101,433)
Vocational	18,302	35,511	(17,209)
Adult/Continuing	0	445	(445)
Student Intervention Services	78,468	33,129	45,339
Support Services:			
Pupils	315,478	295,083	20,395
Instructional Staff	229,539	246,274	(16,735)
Board of Education	19,362	22,520	(3,158)
Administration	434,231	419,163	15,068
Fiscal	153,925	153,050	875
Operation and Maintenance of Plant	446,946	401,700	45,246
Pupil Transportation	266,396	233,659	32,737
Central	27,325	22,491	4,834
Operation of Non-Instructional Services:			
Food Service Operations	251,278	237,860	13,418
Extracurricular Activities	141,853	140,055	1,798
Interest and Fiscal Charges	14,435	11,813	2,622
Total Expenses	<u>5,751,304</u>	<u>5,424,832</u>	<u>326,472</u>
Increase in Net Assets	220,446	431,583	(211,137)
Net Assets at Beginning of Year	<u>1,682,465</u>	<u>1,250,882</u>	<u>431,583</u>
Net Assets at End of Year	<u><u>\$1,902,911</u></u>	<u><u>\$1,682,465</u></u>	<u><u>\$220,446</u></u>

Governmental Activities

Grants and Entitlements not Restricted to Specific Programs made up 42 percent of revenues for governmental activities of the School District for fiscal year 2007. Property Tax revenues made up 19 percent of the total revenues for governmental activities for a total of 61 percent of all revenues coming from Property Taxes and Grants and Entitlements not Restricted to Specific Programs. Operating Grants, Contributions, and Interest increased by \$78,694 due primarily to the CORE and Title II-A grants received during the fiscal year.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Instruction comprises 60 percent of governmental program expenses. Support Services expenses make up 33 percent of governmental expenses. Regular Instruction increased \$283,120 due primarily to an increase in students attending other school districts, which increased expenditures relating to open enrollment, and an increase in salaries relating to two new teachers hired during fiscal year 2007 and two part-time teachers becoming full-time employees. Special Instruction decreased \$101,433 due to a teacher position being cut and new requirements regarding Student Intervention Services. In prior fiscal years, some tutors and aides were paid from Special Instruction; however, these now qualify as Student Intervention Services.

The Statement of Activities shows the cost of program services and the charges for services and grants 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

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Instruction	\$3,450,536	\$3,241,164	\$1,774,891	\$1,709,037
Support Services	1,893,202	1,793,940	1,856,669	1,692,032
Operation of Non-Instructional Services	251,278	237,860	(16,378)	(30,030)
Extracurricular Activities	141,853	140,055	73,033	72,055
Interest and Fiscal Charges	14,435	11,813	14,435	11,813
Total Expenses	<u>\$5,751,304</u>	<u>\$5,424,832</u>	<u>\$3,702,650</u>	<u>\$3,454,907</u>

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,906,624 and expenditures of \$6,028,804. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$55,717 relating to an increase in tuition and fees from State foundation and excess costs monies. The Permanent Improvement Capital Projects Fund increased by \$8,791, which is not significant.

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. The most significant budgeted fund is the General Fund.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

During the course of fiscal year 2007, 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 17, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, final estimated revenues were \$4,753,878, with original estimated revenues of \$4,785,459, a difference of less than one percent, which is not significant.

Final estimated expenditures were \$4,957,839, with original estimated expenditures of \$5,719,031, a difference of 13 percent. This difference of \$761,192 was due primarily to the School District attempting to monitor actual expenditures made in all line items more closely.

Capital Assets

At the end of fiscal year 2007 the School District had \$1,617,585 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	Governmental Activities	
	2007	2006
Land	\$36,900	\$36,900
Land Improvements	43,943	48,712
Buildings and Improvements	985,847	940,517
Furniture, Fixtures and Equipment	275,793	295,218
Vehicles	275,102	100,418
Totals	\$1,617,585	\$1,421,765

Net Capital Assets increased from the prior fiscal year. The primary increase occurred in vehicles, due to the current year additions of school buses.

For more information on capital assets, refer to Note 8 in the notes to the basic financial statements.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Debt

The School District's outstanding debt obligations at fiscal year-end included Permanent Improvement Levy Anticipation Notes in the amount of \$210,000. The notes will be fully retired in fiscal year 2009. The School District also had an outstanding lease-purchase agreement for new school buses and administrative fees in the amount of \$204,000. The School District's long-term obligations also included compensated absences.

The School District's overall legal debt margin was \$4,202,783 with an unvoted debt margin of \$46,698 at June 30, 2007.

For more detailed information on debt, refer to Note 14 in the notes to the basic financial statements.

Current Issues

Clay Local School District consists of three buildings: Rosemount Primary, Rubyville Elementary, and Clay High School. The School District's oldest building was built in 1939 and the newest building was built in 1964. The School District's pupil enrollment of about 600 students has been stable for the past few years. The School District has attempted to renovate and maintain the buildings in a way conducive to classroom learning. A 4.5 mill Permanent Improvement Levy passed by voters in May 2003 made these improvements possible. The Ohio School Facilities Commission (OSFC) has offered the School District the opportunity to receive funding for new facilities. The School District plans to put a levy on the ballot in November of 2008 or 2009 to raise the local share of the bond levy.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Betty Applegate, Treasurer at Clay Local School District, 44 Clay High Street, Portsmouth, Ohio 45662, or email betty_cl@scoca-k12.org.

CLAY LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,221,761
Materials and Supplies Inventory	15,571
Inventory Held for Resale	3,461
Intergovernmental Receivable	90,352
Prepaid Items	4,591
Property Taxes Receivable	1,221,467
Capital Assets:	
Land	36,900
Depreciable Capital Assets, Net	<u>1,580,685</u>
<i>Total Assets</i>	<u>4,174,788</u>
<u>Liabilities:</u>	
Accounts Payable	1,137
Accrued Wages and Benefits Payable	339,248
Intergovernmental Payable	124,148
Accrued Interest Payable	7,005
Deferred Revenue	1,045,151
Long-Term Liabilities:	
Due Within One Year	184,214
Due in More Than One Year	<u>570,974</u>
<i>Total Liabilities</i>	<u>2,271,877</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,203,585
Restricted for Capital Outlay	129,731
Restricted for Other Purposes	87,427
Unrestricted	<u>482,168</u>
<i>Total Net Assets</i>	<u><u>\$1,902,911</u></u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2007

		Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
	Expenses				Total Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,930,474	\$1,157,976	\$119,876	\$0	(\$1,652,622)
Special	423,292	0	394,260	0	(29,032)
Vocational	18,302	0	3,533	0	(14,769)
Student Intervention Services	78,468	0	0	0	(78,468)
Support Services:					
Pupils	315,478	0	4,927	0	(310,551)
Instructional Staff	229,539	0	14,182	0	(215,357)
Board of Education	19,362	0	0	0	(19,362)
Administration	434,231	0	3,455	0	(430,776)
Fiscal	153,925	0	0	0	(153,925)
Operation and Maintenance of Plant	446,946	0	0	0	(446,946)
Pupil Transportation	266,396	2,289	1,223	5,457	(257,427)
Central	27,325	0	5,000	0	(22,325)
Operation of Non-Instructional Services:					
Food Service Operations	251,278	92,330	175,326	0	16,378
Extracurricular Activities	141,853	60,176	8,644	0	(73,033)
Interest and Fiscal Charges	14,435	0	0	0	(14,435)
<i>Total Governmental Activities</i>	<u>\$5,751,304</u>	<u>\$1,312,771</u>	<u>\$730,426</u>	<u>\$5,457</u>	<u>(3,702,650)</u>
 <u>General Revenues:</u>					
Property Taxes Levied for:					
General Purposes					949,973
Capital Outlay					187,898
Grants and Entitlements not					
Restricted to Specific Programs					2,522,549
Contributions and Donations					21,229
Investment Earnings					61,299
Gain on Sale of Capital Assets					1,891
Miscellaneous					178,257
<i>Total General Revenues</i>					<u>3,923,096</u>
<i>Change in Net Assets</i>					220,446
<i>Net Assets at Beginning of Year</i>					1,682,465
<i>Net Assets at End of Year</i>					<u>\$1,902,911</u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,077,981	\$100,801	\$37,522	\$1,216,304
Receivables:				
Property Taxes	1,030,826	190,641	0	1,221,467
Intergovernmental	0	0	90,352	90,352
Interfund	2,000	0	0	2,000
Prepaid Items	4,591	0	0	4,591
Materials and Supplies Inventory	14,833	0	738	15,571
Inventory Held for Resale	0	0	3,461	3,461
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	5,457	0	0	5,457
Total Assets	\$2,135,688	\$291,442	\$132,073	\$2,559,203
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$1,137	\$0	\$0	\$1,137
Accrued Wages and Benefits Payable	303,214	0	36,034	339,248
Intergovernmental Payable	115,324	0	8,824	124,148
Interfund Payable	0	0	2,000	2,000
Deferred Revenue	965,476	177,818	46,726	1,190,020
Total Liabilities	1,385,151	177,818	93,584	1,656,553
<u>Fund Balances:</u>				
Reserved for Encumbrances	43,071	3,309	699	47,079
Reserved for Property Taxes	47,846	9,700	0	57,546
Reserved for Bus Purchases	5,457	0	0	5,457
Unreserved, Undesignated, Reported in:				
General Fund	654,163	0	0	654,163
Special Revenue Funds	0	0	37,790	37,790
Capital Projects Fund	0	100,615	0	100,615
Total Fund Balances	750,537	113,624	38,489	902,650
Total Liabilities and Fund Balances	\$2,135,688	\$291,442	\$132,073	\$2,559,203

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007

Total Governmental Fund Balances \$902,650

*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	36,900	
Other capital assets	4,119,433	
Accumulated depreciation	<u>(2,538,748)</u>	
Total capital assets		1,617,585

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	98,143	
Intergovernmental	<u>46,726</u>	
		144,869

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

Notes payable	(210,000)	
Leases payable	(204,000)	
Accrued interest on capital lease	(625)	
Accrued interest on notes	(6,380)	
Compensated absences	<u>(341,188)</u>	
Total liabilities		<u>(762,193)</u>

Net Assets of Governmental Activities \$1,902,911

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$936,220	\$185,142	\$0	\$1,121,362
Intergovernmental	2,453,428	28,077	720,466	3,201,971
Investment Earnings	61,299	0	1,091	62,390
Tuition and Fees	1,125,274	0	0	1,125,274
Extracurricular Activities	32,702	0	60,176	92,878
Charges for Services	2,289	0	92,330	94,619
Contributions and Donations	21,229	0	8,644	29,873
Miscellaneous	119,994	45,000	13,263	178,257
<i>Total Revenues</i>	<u>4,752,435</u>	<u>258,219</u>	<u>895,970</u>	<u>5,906,624</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,629,058	0	240,532	2,869,590
Special	186,800	0	226,397	413,197
Vocational	17,192	0	0	17,192
Student Intervention Services	36,442	0	42,026	78,468
Support Services:				
Pupils	273,520	0	31,457	304,977
Instructional Staff	213,847	0	10,429	224,276
Board of Education	19,362	0	0	19,362
Administration	416,797	4,324	3,212	424,333
Fiscal	152,498	0	0	152,498
Operation and Maintenance of Plant	419,466	0	0	419,466
Pupil Transportation	427,986	0	0	427,986
Central	26,647	0	0	26,647
Operation of Non-Instructional Services:				
Food Service Operations	0	0	253,531	253,531
Extracurricular Activities	70,866	0	73,528	144,394
Capital Outlay	1,200	129,687	0	130,887
Debt Service:				
Principal Retirement	0	0	105,000	105,000
Interest and Fiscal Charges	3,000	0	14,000	17,000
<i>Total Expenditures</i>	<u>4,894,681</u>	<u>134,011</u>	<u>1,000,112</u>	<u>6,028,804</u>
Excess of Revenues Over (Under) Expenditures	<u>(142,246)</u>	<u>124,208</u>	<u>(104,142)</u>	<u>(122,180)</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	2,477	0	0	2,477
Proceeds from Lease	204,000	0	0	204,000
Transfers In	0	0	123,931	123,931
Transfers Out	(8,514)	(115,417)	0	(123,931)
<i>Total Other Financing Sources (Uses)</i>	<u>197,963</u>	<u>(115,417)</u>	<u>123,931</u>	<u>206,477</u>
<i>Net Change in Fund Balances</i>	55,717	8,791	19,789	84,297
<i>Fund Balances at Beginning of Year</i>	<u>694,820</u>	<u>104,833</u>	<u>18,700</u>	<u>818,353</u>
<i>Fund Balances at End of Year</i>	<u>\$750,537</u>	<u>\$113,624</u>	<u>\$38,489</u>	<u>\$902,650</u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$84,297

*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	318,028	
Depreciation expense	(121,622)	
Excess of capital outlay over depreciation expense	196,406	196,406

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the costs of capital assets are removed from the capital assets account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a gain on the sale of capital assets in the Statement of Activities.

Proceeds from sale of capital assets	(2,477)	
Gain on sale of capital assets	1,891	
	(586)	(586)

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	16,509	
Intergovernmental	46,726	
	63,235	63,235

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 fiscal year, these amounts consist of:

Note principal payments		105,000
-------------------------	--	---------

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets the lease obligation is reported as a liability.

Capital leases		(204,000)
----------------	--	-----------

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:

Increase in compensated absences payable	(26,471)	
Decrease in accrued interest payable	2,565	
Total increase	(23,906)	(23,906)

Change in Net Assets of Governmental Activities \$220,446

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2007

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$1,084,497	\$933,726	\$932,491	(\$1,235)
Intergovernmental	2,378,603	2,456,678	2,453,428	(3,250)
Investment Earnings	59,429	61,380	61,299	(81)
Tuition and Fees	1,056,974	1,126,765	1,125,274	(1,491)
Extracurricular Activities	31,704	32,745	32,702	(43)
Charges for Services	2,219	2,292	2,289	(3)
Contributions and Donations	12,825	21,257	21,229	(28)
Miscellaneous	159,208	119,035	118,877	(158)
<i>Total Revenues</i>	<u>4,785,459</u>	<u>4,753,878</u>	<u>4,747,589</u>	<u>(6,289)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,204,346	1,944,796	1,941,117	3,679
Special	396,561	192,088	191,725	363
Vocational	43,582	19,369	19,332	37
Other	791,897	744,662	743,253	1,409
Support Services:				
Pupils	343,248	280,079	279,549	530
Instructional Staff	266,487	215,649	215,241	408
Board of Education	29,330	18,310	18,275	35
Administration	531,705	421,112	420,315	797
Fiscal	198,425	155,119	154,826	293
Operation and Maintenance of Plant	473,289	426,635	425,827	808
Pupil Transportation	335,705	446,978	446,132	846
Central	22,672	23,513	23,469	44
Extracurricular Activities	81,168	68,327	68,198	129
Capital Outlay	616	1,202	1,200	2
<i>Total Expenditures</i>	<u>5,719,031</u>	<u>4,957,839</u>	<u>4,948,459</u>	<u>9,380</u>
Excess of Revenues Under Expenditures	<u>(933,572)</u>	<u>(203,961)</u>	<u>(200,870)</u>	<u>3,091</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	0	2,477	2,477	0
Proceeds from Lease	0	201,000	201,000	0
Transfers In	0	1,117	1,117	0
Transfers Out	(9,167)	(8,514)	(8,514)	0
Advances Out	(75,786)	(2,000)	(2,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(84,953)</u>	<u>194,080</u>	<u>194,080</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(1,018,525)</u>	<u>(9,881)</u>	<u>(6,790)</u>	<u>3,091</u>
<i>Fund Balance at Beginning of Year</i>	<u>1,002,293</u>	<u>1,002,293</u>	<u>1,002,293</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>42,758</u>	<u>42,758</u>	<u>42,758</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$26,526</u>	<u>\$1,035,170</u>	<u>\$1,038,261</u>	<u>\$3,091</u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2007

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,048	<u><u>\$25,031</u></u>
<u>Liabilities:</u>		
Undistributed Monies	<u>0</u>	<u><u>\$25,031</u></u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	<u><u>\$1,048</u></u>	

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
	Scholarships
<u>Additions:</u>	
Gifts and Donations	\$720
<u>Deductions:</u>	
Scholarships	500
<i>Change in Net Assets</i>	220
<i>Net Assets at Beginning of Year</i>	828
<i>Net Assets at End of Year</i>	\$1,048

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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 1909 through the consolidation of existing land areas and school districts. The School District serves an area of 19.93 square miles. It is located in Scioto County, and includes Clay Township. It is staffed by 23 non-certificated employees, 48 certificated full-time teaching personnel and four administrative employees who provide services to 605 students and other community members. The School District currently operates three instructional buildings and two storage buildings.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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 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 six organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Coalition of Rural and Appalachian Schools, the Pilasco-Ross Special Education Regional Resource Center, the Scioto County Schools Council, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 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.

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 statements normally distinguish between those activities that are governmental and those that are considered business-type activities; however, the School District has no business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at 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.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities into 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. 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds of the School District fall within two categories: governmental 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.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705 of the Ohio Revised Code.

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

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. 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 has two fiduciary funds: a private purpose trust used to account for college scholarship donations and an agency fund used to account for student managed activity programs.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

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.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 for advance and grants.

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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, other than the agency fund, 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 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 to 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 final budgeted amounts reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year-end in all funds.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts in the budgetary statements 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, including all supplemental appropriations. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for 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 are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2007, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio) and a repurchase agreement. Repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2007 amounted to \$61,299, which includes \$6,268 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 cash equivalents.

G. 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 externally imposed by creditors, contributors, grantors or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash equivalents legally required to be set aside by the School District for bus purchases.

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

J. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually 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 an asset's life are not capitalized.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets, except land, 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>Estimated Lives</u>
Land Improvements	10 - 20 years
Buildings and Improvements	5 - 60 years
Furniture, Fixtures and Equipment	5 - 20 years
Textbooks	10 years
Vehicles	4 - 10 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

L. 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.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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. Capital leases and notes payable that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Internal Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. 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, 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.

P. 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 improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and music and athletic programs, and federal and State grants restricted to expenditure 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 \$217,158 of restricted net assets, none of which is restricted by enabling legislation.

Q. 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 3 - ACCOUNTABILITY

At June 30, 2007, the Poverty-Based Assistance, and Title II-A Special Revenue Funds had deficit fund balances of \$577 and \$4,743, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances 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 and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and 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 (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$55,717
Adjustments:	
Revenue Accruals	(7,846)
Expenditure Accruals	(10,077)
Transfers	1,117
Advances	(2,000)
Encumbrances	<u>(43,701)</u>
Budget Basis	<u><u>(\$6,790)</u></u>

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 can be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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;
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);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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.

Investments: As of June 30, 2007, the School District had the following investments:

	Carrying and Fair Value	Maturing in Less than 1 year
STAROhio	\$1,119,106	\$1,119,106
Repurchase Agreement	98,000	98,000
Totals	\$1,217,106	\$1,217,106

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School District's policy requires that, to the extent possible, the Treasurer will attempt to match investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions. The maximum maturity of any eligible instrument is five years from the settlement date, unless the investment is matched to a specified obligation or debt of the School District. Any investment made must be purchased with a reasonable expectation that it will be held to maturity.

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Repurchase Agreement (underlying investment of Federal National Mortgage Association Benchmark Notes) has a credit rating of Aaa by Moody's and AAA by Standard and Poor's. The School District's investment policy does not address credit risk.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency of instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2007, the School District's bank balance of \$103,189 was either covered by FDIC or collateralized by the financial institution's public entity deposit pools in the manner described above.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006, and are collected in 2007 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 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. 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. This fiscal year, however, the June 2007 tangible personal property tax was not received until July 2007.

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES (continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late tangible personal property tax settlement were levied to finance current fiscal year operations and is reported as revenue at fiscal year-

end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The amount available as an advance at June 30, 2007, was \$47,846 in the General Fund and \$9,700 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2006, was \$61,621 in the General Fund and \$12,434 in the Permanent Improvement Capital Projects Fund. The late June personal property tax settlement was recorded as revenue in the General Fund in the amount of \$17,504 and in the Permanent Improvement Capital Projects Fund in the amount of \$3,123.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$44,380,080	85.68%	\$44,316,750	87.76%
Public Utility Personal	3,219,080	6.21%	3,115,070	6.17%
General Business Personal	4,199,678	8.11%	3,065,298	6.07%
Total Assessed Value	<u>\$51,798,838</u>	<u>100.00%</u>	<u>\$50,497,118</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.59		\$37.59	

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007, consisted of property taxes, intergovernmental grants, and interfund. Most receivables are considered collectible in full and will be received within one fiscal year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Project Lead the Way	\$2,000
Food Service - Federal Reimbursements	16,679
CORE	46,726
REAP	561
IDEA - B	10,520
Title I	13,764
Title II - A, Improving Teacher Quality	102
Total Intergovernmental Receivables	<u><u>\$90,352</u></u>

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 6/30/06	Additions	Deductions	Balance at 6/30/07
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$36,900	\$0	\$0	\$36,900
Capital Assets Being Depreciated:				
Land Improvements	62,237	1,387	0	63,624
Buildings and Improvements	2,405,772	87,702	0	2,493,474
Furniture, Fixtures and Equipment	776,945	27,939	(27,285)	777,599
Textbooks	338,923	0	0	338,923
Vehicles	357,571	201,000	(112,758)	445,813
Total Capital Assets Being Depreciated	<u>3,941,448</u>	<u>318,028</u>	<u>(140,043)</u>	<u>4,119,433</u>
Less Accumulated Depreciation:				
Land Improvements	(13,525)	(6,156)	0	(19,681)
Building and Improvements	(1,465,255)	(42,372)	0	(1,507,627)
Furniture, Fixtures and Equipment	(481,727)	(46,778)	26,699	(501,806)
Textbooks	(338,923)	0	0	(338,923)
Vehicles	(257,153)	(26,316)	112,758	(170,711)
Total Accumulated Depreciation	<u>(2,556,583)</u>	<u>(121,622) *</u>	<u>139,457</u>	<u>(2,538,748)</u>
Total Capital Assets Being Depreciated, Net	<u>1,384,865</u>	<u>196,406</u>	<u>(586)</u>	<u>1,580,685</u>
Governmental Activities Capital Assets, Net	<u>\$1,421,765</u>	<u>\$196,406</u>	<u>(\$586)</u>	<u>\$1,617,585</u>

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$54,115
Special	5,598
Vocational	1,110
Support Services:	
Pupils	3,610
Instructional Staff	4,275
Administration	4,528
Fiscal	1,938
Operation and Maintenance of Plant	8,029
Pupil Transportation	30,972
Central	665
Operation of Non-Instructional Services:	
Food Service Operations	2,670
Extracurricular Activities	4,112
Total Depreciation Expense	<u><u>\$121,622</u></u>

NOTE 9 - RISK MANAGEMENT

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 2007, the School District participated in the Ohio School Plan (OSP), an 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 18). The types and amounts of coverage follow:

Building and Contents replacement cost (\$1,000 deductible)	\$26,111,578
Inland Marine Coverage (\$1,000 deductible)	100,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
	(continued)

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 - RISK MANAGEMENT (continued)

<u>Educational General Liability Coverage Form:</u>	
Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Sexual Abuse Offense	\$1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Loss of Electronic Data Limit - Each Electronic Data Incident	50,000
Fire Damage Limit	500,000
Medical Expense - Any One Person Limit	10,000
Medical Expense - Each Accident Limit	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
<u>Employee Benefits Liability Coverage Endorsement - Claims Made:</u>	
Each Offense Limit	1,000,000
Aggregate Limit	3,000,000
<u>Employer's Liability - Stop Gap Coverage Endorsement:</u>	
Bodily Injury by Accident - Each Accident	1,000,000
Bodily Injury by Disease	1,000,000
Bodily Injury by Disease - Each Employee	1,000,000
<u>Educational Legal Liability Coverage - Claims Made (\$2,500 deductible):</u>	
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Aggregate Limit	3,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	1,000,000
<u>Excess Liability Coverage:</u>	
Educational General Liability:	
Bodily Injury and Property Damage Limit - Each Occurrence	1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
General Aggregate Limit	1,000,000
Products - Complete Operations Aggregate Limit	1,000,000
Employee Benefits Liability - Claims Made:	
Employee Benefits Injury - Each Offense Limit	1,000,000
Employee Benefits Injury - Aggregate Limit	1,000,000
Educational Legal Liability - Claims Made:	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	1,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Agregate Limits	1,000,000

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 - RISK MANAGEMENT (continued)

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 17), offering medical and dental insurance to the employees of participating school districts. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the School District shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. All claims and expenses shall be paid from the funds of the Council.

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 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 43215-3746, or by calling toll-free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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 2007, 10.68 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, 2007, 2006, and 2005 were \$64,270, \$62,228 and \$68,273, respectively; 44.09 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

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 43215-3771, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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 of 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 2007, 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 2006, the portion used to fund pension obligations was also 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, 2007, 2006, and 2005, were \$296,820, \$290,284 and \$268,584, respectively; 82.65 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. There were no contributions to the DC and Combined Plans for fiscal year 2007 made by the School District and \$2,956 were made by the plan members.

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, 2007, three members of the Board of Education 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 funded on a pay-as-you-go basis.

All STRS Ohio 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 cost 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, 2007, 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 \$22,832 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. 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 2007 fiscal year equaled \$31,653.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated contracts and State laws. Eligible classified employees and administrators 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.

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 230 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum payment of 40 - 60 days, depending on years of service.

B. Insurance Benefits

The School District provides health care and dental coverage for its employees through Medical Mutual of Ohio, vision coverage through Vision Service Plan, and life insurance through SunLife.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 12 - EMPLOYEE BENEFITS (continued)

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2007, the School District entered into a lease-purchase agreement for the acquisition of school buses. The 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. The School District is leasing the buses through the Ohio Association of School Business Officials (OASBO) Expanded Asset Pooled Financing Program. Under this program, participating school districts finance building improvements or asset acquisitions by entering into a lease-purchase agreement in an attempt to achieve debt service and issuance cost savings. Under this program, the School District is leasing the buses from the Columbus Regional Airport Authority, which is an administrator of the program. The Columbus Regional Airport Authority deposited \$204,000 with U.S. Bank National Association, who will serve as the fiscal agent for the monies. The School District utilized the monies held by U.S. Bank National Association for the purchase of the buses. In turn, the School District will make semi-annual lease payments to U.S. Bank National Association. Interest rates are based on a calculation of the TBMA index. The lease is renewable annually and expires in fiscal year 2014. The intention of the School District is to renew the lease annually and make payments using school bus reimbursements received from the State of Ohio and General Fund revenues. Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. All funds from the lease-purchase agreement were received and used prior to fiscal year-end.

The lease-purchase amount equaled \$204,000. Capital assets acquired through the lease were capitalized in the amount of \$201,000 with the remaining \$3,000 being disbursed directly from the Program Discretionary Fund to pay certain expenses of the School District's participation in the Program. A corresponding liability was recorded on the Statement of Net Assets for governmental activities.

The assets acquired through the capital lease as of June 30, 2007, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
School Buses	\$201,000	\$0	\$201,000

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Amount Outstanding 6/30/06	Additions	Deductions	Amount Outstanding 6/30/07	Amounts Due in One Year
<u>Governmental Activities:</u>					
2003 Permanent Improvement Levy					
Anticipation Notes - 3.31%	\$315,000	\$0	\$105,000	\$210,000	\$105,000
Capital Leases	0	204,000	0	204,000	25,000
Compensated Absences	314,717	85,400	58,929	341,188	54,214
Total Governmental Activities					
Long-Term Obligations	<u>\$629,717</u>	<u>\$289,400</u>	<u>\$163,929</u>	<u>\$755,188</u>	<u>\$184,214</u>

On July 30, 2003, the School District issued Permanent Improvement Levy Anticipation Notes in the amount of \$525,000 for the purpose of improving facilities within the School District. The notes were issued for a five year period with final maturity on July 30, 2008. The notes will be retired from the Debt Service Fund. As of June 30, 2007, all of the note proceeds had been spent toward the project.

Compensated absences will be paid from the General Fund and the Food Service, Title VI-B, Title I, and Title II-A Special Revenue Funds.

The School District's overall legal debt margin was \$4,202,783 with an unvoted debt margin of \$46,698 at June 30, 2007.

Principal and interest requirements to retire the Permanent Improvement Levy Anticipation Notes outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$105,000	\$6,951	\$111,951
2009	105,000	3,476	108,476
Total	<u>\$210,000</u>	<u>\$10,427</u>	<u>\$220,427</u>

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 15 - INTERFUND ACTIVITY

Transfers made during the fiscal year ended June 30, 2007, were as follows:

		Transfers From		
		General	Permanent Improvement	Total
Transfers To	Other			
	Governmental Funds	\$8,514	\$115,417	\$123,931

General Fund transfers are made to move unrestricted balances to support programs and projects accounted for in other funds. Permanent Improvement Fund transfers were made to move amounts to the Debt Service Fund for the purpose of making debt payments.

Interfund balances at June 30, 2007, consist of the following individual interfund receivable and payable:

		Receivable
		General Fund
Payable	Other	
	Governmental Funds	\$2,000

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant funds will use these restricted monies to reimburse the General Fund for the initial advance.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

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, plus a representative of the fiscal agent. The School District paid SCOCA \$8,773 for membership fees 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for School District administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for School District personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid \$300 to the Coalition for services provided during the fiscal year.

C. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a Board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Gary Dutey, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the Council are to formulate and administer programs of health and dental insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health and dental coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

NOTE 18 - INSURANCE PURCHASING POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Board Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The 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 thirteen member Board of Directors consisting of school district superintendents and treasurers, as well as Dave Harcum, an independent consultant of the Hylant Group, Inc., and a partner of the Hylant Group, Inc. The Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 19 - SET-ASIDE CALCULATIONS

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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and instructional materials and capital acquisitions. Disclosure of this information is required by State statute.

	Textbooks and Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0
Current Fiscal Year Set-aside Requirement	76,476	76,476
Current Fiscal Year Offsets	0	(76,476)
Qualifying Disbursements	(76,476)	0
Totals	\$0	\$0
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0

Amounts of offsets and qualifying disbursements presented in the table were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements for textbooks and instructional materials during the year, and this extra amount may be used to reduce the set-aside requirements of future fiscal years, the School District has decided to not carry over such negative balances to the next fiscal year.

NOTE 20 - 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, 2007.

B. Litigation

The School District is not party to any legal proceedings.

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Governing Board
Clay Local School District
44 Clay High Street
Portsmouth, Ohio 45662

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay Local School District, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

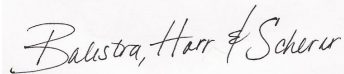
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

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



Balestra, Harr & Scherer, CPAs, Inc.

December 28, 2007



Mary Taylor, CPA
Auditor of State

CLAY LOCAL SCHOOL DISTRICT

SCIOTO 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
FEBRUARY 5, 2008**