



Mary Taylor, CPA  
Auditor of State



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

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Food Service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

May 9, 2008

*Lynchburg Clay Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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As management of the Lynchburg Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 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**

- The assets of the Lynchburg Clay Local School District exceeded its liabilities at June 30, 2007 by \$26,674,794. Of this amount, \$5,693,769 may be used to meet the School District's ongoing financial obligations. The remaining amounts represent capital assets net of related debt and net assets restricted for specific purposes.
- The School District's net assets increased by \$249,740 during this fiscal year's operations.
- General revenues accounted for \$9,788,104 or 82 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$2,193,170 or 18 percent of total revenues of \$11,981,274.
- The School District had \$11,731,534 in expenses related to governmental activities; only \$2,193,170 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest.

**Using the Basic Financial Statements**

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

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

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## **Reporting the School District as a Whole**

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2007?” The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

## **Reporting the School District’s Most Significant Funds**

### **Fund Financial Statements**

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

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



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**Proprietary Fund** – Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The Internal Service Fund is used to account for the dental and vision benefits provided to employees, the final payout of claims for medical benefits in relation to the claims servicing pool that the School District was a member of prior to 2007 and the collection and payment of premiums for medical insurance to the insurance purchasing pool.

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

**The School District as a Whole**

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for fiscal years 2007 and 2006:

(Table 1)  
Net Assets  
Governmental Activities

	2007	2006	Change in Net Assets
<b>Assets</b>			
Current and Other Assets	\$10,558,385	\$9,943,959	\$614,426
Capital Assets	21,311,335	21,945,258	(633,923)
Total Assets	<u>31,869,720</u>	<u>31,889,217</u>	<u>(19,497)</u>
<b>Liabilities</b>			
Long-Term Liabilities	2,114,210	2,205,437	(91,227)
Other Liabilities	3,080,716	3,258,726	(178,010)
Total Liabilities	<u>5,194,926</u>	<u>5,464,163</u>	<u>(269,237)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	19,589,731	20,137,716	(547,985)
Restricted	1,391,294	1,151,602	239,692
Unrestricted	5,693,769	5,135,736	558,033
Total Net Assets	<u><u>\$26,674,794</u></u>	<u><u>\$26,425,054</u></u>	<u><u>\$249,740</u></u>

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Table 1 is a comparison of governmental activities as of June 30, 2007 and 2006. Total net assets increased by \$249,740. Equity in Pooled Cash and Cash Equivalents increased \$1,023,052, due mainly to increases in State and federal funding and tuition and fees. Capital assets decreased due to current year depreciation of \$947,192 exceeding additions. Long-term liabilities decreased by \$91,227, primarily due to the payment of long-term debt obligations. Other liabilities decreased by \$178,010, due to a decrease in deferred revenue related to State and federal grants and a decrease in claims payable.

Table 2 highlights 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 basis of accounting.

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

(Table 2)  
Changes in Net Assets

	Governmental Activities 2007	Governmental Activities 2006	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$969,233	\$883,032	\$86,201
Operating Grants, Contributions and Interest	1,198,937	1,230,740	(31,803)
Capital Grants and Contributions	25,000	39,312	(14,312)
Total Program Revenues	<u>2,193,170</u>	<u>2,153,084</u>	<u>40,086</u>
General Revenues:			
Property Taxes	1,833,106	1,690,768	142,338
Grants and Entitlements not Restricted to Specific Programs	7,531,172	7,174,200	356,972
Gifts and Donations	2,201	0	2,201
Unrestricted Investment Earnings	332,116	182,461	149,655
Miscellaneous	89,509	78,411	11,098
Total General Revenues	<u>9,788,104</u>	<u>9,125,840</u>	<u>662,264</u>
Total Revenues	<u>\$11,981,274</u>	<u>\$11,278,924</u>	<u>\$702,350</u>

(Continued)

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(Table 2)  
Changes in Net Assets  
(Continued)

	Governmental Activities 2007	Governmental Activities 2006	Change
<b>Program Expenses</b>			
Instruction:			
Regular	\$5,455,741	\$5,307,656	\$148,085
Special	1,038,646	931,754	106,892
Vocational	252,466	245,585	6,881
Student Intervention Services	54,361	23,125	31,236
Support Services:			
Pupils	390,193	372,613	17,580
Instructional Staff	446,490	500,954	(54,464)
Board of Education	31,838	30,579	1,259
Administration	974,382	1,077,961	(103,579)
Fiscal	256,448	279,229	(22,781)
Business	35,059	33,112	1,947
Operation and Maintenance of Plant	1,124,770	1,192,639	(67,869)
Pupil Transportation	835,133	880,404	(45,271)
Central	12,071	14,492	(2,421)
Operation of Non-Instructional Services:			
Food Services	555,760	541,465	14,295
Other	1,513	23,981	(22,468)
Extracurricular Activities	176,630	164,550	12,080
Interest and Fiscal Charges	90,033	94,357	(4,324)
Total Expenses	<u>11,731,534</u>	<u>11,714,456</u>	<u>17,078</u>
Increase / (Decrease) in Net Assets	249,740	(435,532)	685,272
Net Assets at Beginning of Year	<u>26,425,054</u>	<u>26,860,586</u>	<u>(435,532)</u>
Net Assets at End of Year	<u>\$26,674,794</u>	<u>\$26,425,054</u>	<u>\$249,740</u>

Charges for services and sales increased \$86,201. This was due mainly to increases in preschool tuition and fees and lunch sales.

Property taxes increased \$142,338 due to real property valuation increases.

Grants and entitlements not restricted to specific programs increased \$356,972 due mainly to increases in State foundation monies.

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Regular instruction expenses increased \$148,085 due to a combination of base salary increases along with step salary increases.

Special instruction expenses increased \$106,892. This was the result of increases in substitute teachers and aides for special education students.

Administration expenses decreased \$103,579. This was due to decreases in office supply expenses and phone charges. Also, the School District secretary was on leave without pay throughout the fiscal year as the result of a car accident.

**Governmental Activities**

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

(Table 3)  
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Instruction	\$6,801,214	(\$5,308,057)	\$6,508,120	(\$5,094,297)
Support Services	4,106,384	(3,953,467)	4,381,983	(4,192,606)
Operation of Non-				
Instructional Services	557,273	(99,614)	565,446	(109,602)
Extracurricular Activities	176,630	(87,193)	164,550	(70,510)
Interest and Fiscal Charges	90,033	(90,033)	94,357	(94,357)
Total Expenses	<u>\$11,731,534</u>	<u>(\$9,538,364)</u>	<u>\$11,714,456</u>	<u>(\$9,561,372)</u>

**The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,016,643 and expenditures of \$11,243,017. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$560,546. This was due mainly to an increase in intergovernmental revenues and interest, offset by slight increases in expenditures.

The Food Service Fund had a decrease in fund balance of \$12,440.

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The Debt Service Fund saw an increase in fund balance of \$1,059.

**General Fund - Budget Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 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 20, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amount.

For the General Fund, original and final budgeted revenues were \$10,412,331. Final budgeted revenues were \$113,845 less than actual.

Original budgeted expenditures in the General Fund were \$9,862,214 and final budgeted expenditures were \$9,809,588. The actual budget basis expenditures were also \$9,809,588. The majority of the difference between original and final budgeted expenditures of \$52,626, was the result of lower spending of \$289,703 in regular instruction and \$5,970 in operation and maintenance of plant.

**Capital Assets and Debt Administration**

*Capital Assets*

The Lynchburg Clay Local School District's investment in capital assets as of June 30, 2007 was \$21,311,335. This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and books and educational media. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	2007	2006	Change
Land	\$405,668	\$405,668	\$0
Construction in Progress	102,882	0	102,882
Land Improvements	1,480,863	1,557,035	(76,172)
Buildings and Building Improvements	18,062,002	18,693,120	(631,118)
Furniture, Fixtures and Equipment	888,030	958,348	(70,318)
Vehicles	366,285	322,713	43,572
Books and Educational Media	5,605	8,374	(2,769)
Totals	<u>\$21,311,335</u>	<u>\$21,945,258</u>	<u>(\$633,923)</u>

Net capital assets decreased \$633,923 from the prior fiscal year.

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

***Debt***

At June 30, 2007 the School District had \$1,720,000 in bonds outstanding, with \$90,000 due within one year. Table 5 summarizes bonds outstanding:

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

	2007	2006
General Obligation Bonds:		
1998 - School Improvement Bonds	<u>\$1,720,000</u>	<u>\$1,805,000</u>

**School Improvement Bonds**

In July, 1998, the School District issued \$2,330,600 in voted general obligation bonds for the construction of a new elementary school, a new high school and renovations to the old high school building to be used as a middle school. The bonds were issued for a twenty-three year period with final maturity in fiscal year 2022.

The School District's voted legal debt margin was \$6,912,839 with an unvoted debt margin of \$87,766 at June 30, 2007.

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

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Unaudited*

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## **District Challenges for the Future**

Lynchburg Clay Local School District's financial status continues to be healthy and appears stable for the next four fiscal years. While the School District continues to maintain a healthy cash balance, our projection shows our expenditures will exceed our revenue in fiscal year 2010. Therefore, certain measures are being taken to make sure this does not continue for an extended period of time.

Lynchburg Clay Local School District is heavily dependent on State funding; approximately 73 percent of its funding is received through the State foundation program.

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

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

The slow State and national economy is also causing financial difficulty for the Lynchburg Clay Local School District and schools throughout the State and the nation. The Governor of Ohio is currently dealing with poor economic conditions in our state and is outlining a plan for a new round of state cuts in funding. Unless Ohio's economy takes a positive turn, the funding for Ohio's public schools may not be sufficient to finance educational programs necessary for our students. Although the State has made budget cuts to other entities, the public schools have been exempt from these cuts. This however may not be possible in the future.

In schools, as in any other business, funding is always a major concern. Since schools are dependent on local and State taxes for a portion of their funding, it is important that the State legislature and governor make school funding a priority. The lack of appropriate State response to the DeRolph school funding lawsuit, the poor local, State and national economy, the various student educational options, the cost of implementing the No Child Left Behind Program, the various student educational options and student enrollment projections all contribute to the difficult task of establishing financial projections for our School District.

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

*Lynchburg Clay Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

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**Contacting the School District's Financial Management**

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



**Lynchburg Clay Local School District**

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$8,547,282
Accrued Interest Receivable	75,865
Accounts Receivable	29
Inventory Held for Resale	4,665
Materials and Supplies Inventory	550
Intergovernmental Receivable	119,063
Property Taxes Receivable	1,810,931
Capital Assets:	
Land	405,668
Construction in Progress	102,882
Depreciable Capital Assets, Net	<u>20,802,785</u>
<i>Total Assets</i>	<u>31,869,720</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	90,654
Accrued Wages and Benefits Payable	852,491
Intergovernmental Payable	342,768
Deferred Revenue	1,709,913
Matured Compensated Absences Payable	55,723
Early Retirement Incentive Payable	7,018
Accrued Interest Payable	7,353
Claims Payable	14,796
Long-Term Liabilities:	
Due Within One Year	139,843
Due in More Than One Year	<u>1,974,367</u>
<i>Total Liabilities</i>	<u>5,194,926</u>
<b><u>Net Assets:</u></b>	
Invested in Capital Assets, Net of Related Debt	19,589,731
Restricted for:	
Capital Projects	184,516
Debt Service	730,654
Set-Asides	30,409
Other Purposes	445,715
Unrestricted	<u>5,693,769</u>
<i>Total Net Assets</i>	<u><u>\$26,674,794</u></u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2007

		Program Revenues			Net (Expense)
		Charges for	Operating Grants,	Capital Grants	Revenue and
	Expenses	Services and Sales	Contributions and Interest	and Contributions	Changes in
<u>Governmental Activities:</u>					Net Assets
					Governmental
					Activities
<b>Instruction:</b>					
Regular	\$5,455,741	\$520,084	\$263,847	\$0	(\$4,671,810)
Special	1,038,646	70,336	547,120	0	(421,190)
Vocational	252,466	24,768	67,002	0	(160,696)
Student Intervention Services	54,361	0	0	0	(54,361)
<b>Support Services:</b>					
Pupils	390,193	0	41,016	0	(349,177)
Instructional Staff	446,490	0	67,955	0	(378,535)
Board of Education	31,838	0	0	0	(31,838)
Administration	974,382	0	1,416	0	(972,966)
Fiscal	256,448	0	417	0	(256,031)
Business	35,059	0	0	0	(35,059)
Operation and Maintenance of Plant	1,124,770	7,324	13,032	0	(1,104,414)
Pupil Transportation	835,133	0	16,757	0	(818,376)
Central	12,071	0	5,000	0	(7,071)
<b>Operation of Non-Instructional Services:</b>					
Food Services	555,760	283,818	173,841	0	(98,101)
Other	1,513	0	0	0	(1,513)
Extracurricular Activities	176,630	62,903	1,534	25,000	(87,193)
Interest and Fiscal Charges	90,033	0	0	0	(90,033)
<b>Total Governmental Activities</b>	<b>\$11,731,534</b>	<b>\$969,233</b>	<b>\$1,198,937</b>	<b>\$25,000</b>	<b>(9,538,364)</b>
<b><u>General Revenues:</u></b>					
Property Taxes Levied for:					
					1,634,433
					160,730
					37,943
Grants and Entitlements not					
					7,531,172
					2,201
					332,116
					89,509
<b>Total General Revenues</b>					<b>9,788,104</b>
<b>Change in Net Assets</b>					<b>249,740</b>
<b>Net Assets at Beginning of Year</b>					<b>26,425,054</b>
<b>Net Assets at End of Year</b>					<b>\$26,674,794</b>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**

Balance Sheet

Governmental Funds

June 30, 2007

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<b><u>Assets:</u></b>					
Equity in Pooled Cash and Cash Equivalents	\$6,902,489	\$20,316	\$729,129	\$624,907	\$8,276,841
Inventory Held for Resale	0	4,665	0	0	4,665
Materials and Supplies Inventory	0	550	0	0	550
Accrued Interest Receivable	75,865	0	0	0	75,865
Accounts Receivable	29	0	0	0	29
Interfund Receivable	11,908	0	0	0	11,908
Intergovernmental Receivable	6,172	24,467	0	88,424	119,063
Property Taxes Receivable	1,632,227	0	143,538	35,166	1,810,931
Advances to Other Funds	31,938	0	0	0	31,938
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	55,841	0	0	0	55,841
<b>Total Assets</b>	<b>\$8,716,469</b>	<b>\$49,998</b>	<b>\$872,667</b>	<b>\$748,497</b>	<b>\$10,387,631</b>
<b><u>Liabilities:</u></b>					
Accounts Payable	\$81,841	\$285	\$0	\$8,528	\$90,654
Accrued Wages and Benefits Payable	792,009	26,568	0	33,914	852,491
Matured Compensated Absences Payable	50,540	5,183	0	0	55,723
Early Retirement Incentive Payable	7,018	0	0	0	7,018
Interfund Payable	0	0	0	11,908	11,908
Intergovernmental Payable	265,776	14,510	0	4,153	284,439
Advances from Other Funds	0	31,938	0	0	31,938
Deferred Revenue	1,596,927	0	138,744	70,083	1,805,754
<b>Total Liabilities</b>	<b>2,794,111</b>	<b>78,484</b>	<b>138,744</b>	<b>128,586</b>	<b>3,139,925</b>
<b><u>Fund Balances:</u></b>					
Reserved for Encumbrances	120,680	3,460	0	29,632	153,772
Reserved for Advances	31,938	0	0	0	31,938
Reserved for Property Taxes	48,430	0	4,794	1,108	54,332
Reserved for Budget Stabilization	30,409	0	0	0	30,409
Reserved for Bus Purchases	25,432	0	0	0	25,432
Unreserved:					
Undesignated, Reported in:					
General Fund	5,665,469	0	0	0	5,665,469
Special Revenue Funds (Deficit)	0	(31,946)	0	430,087	398,141
Debt Service Fund	0	0	729,129	0	729,129
Capital Projects Funds	0	0	0	159,084	159,084
<b>Total Fund Balances (Deficit)</b>	<b>5,922,358</b>	<b>(28,486)</b>	<b>733,923</b>	<b>619,911</b>	<b>7,247,706</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,716,469</b>	<b>\$49,998</b>	<b>\$872,667</b>	<b>\$748,497</b>	<b>\$10,387,631</b>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007

**Total Governmental Fund Balances** \$7,247,706

***Amounts reported for governmental activities in the  
 Statement of Net Assets are different because:***

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

Land	405,668	
Construction in Progress	102,882	
Other Capital Assets	31,362,643	
Accumulated depreciation	<u>(10,559,858)</u>	
Total capital assets		21,311,335

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	46,686	
Interest	13,130	
Intergovernmental	<u>36,025</u>	
		95,841

The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. 141,475

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

Bonds payable	(1,720,000)	
Accrued interest on bonds	(7,353)	
Capital leases	(1,604)	
Compensated absences	<u>(392,606)</u>	
		<u>(2,121,563)</u>

**Net Assets of Governmental Activities** \$26,674,794

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balance:  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<b><u>Revenues:</u></b>					
Property Taxes	\$1,639,944	\$0	\$161,324	\$38,133	\$1,839,401
Intergovernmental	7,913,594	173,841	19,160	639,314	8,745,909
Interest	343,856	0	0	0	343,856
Tuition and Fees	615,188	0	0	0	615,188
Rent	7,324	0	0	0	7,324
Extracurricular Activities	0	0	0	62,903	62,903
Gifts and Donations	2,201	0	0	26,534	28,735
Customer Sales and Services	0	283,818	0	0	283,818
Miscellaneous	48,740	448	0	40,321	89,509
<i>Total Revenues</i>	<u>10,570,847</u>	<u>458,107</u>	<u>180,484</u>	<u>807,205</u>	<u>12,016,643</u>
<b><u>Expenditures:</u></b>					
Current:					
Instruction:					
Regular	4,874,075	0	0	103,213	4,977,288
Special	652,792	0	0	349,586	1,002,378
Vocational	231,971	0	0	0	231,971
Student Intervention Services	54,361	0	0	0	54,361
Support Services:					
Pupils	324,325	0	0	47,094	371,419
Instructional Staff	346,732	0	0	79,502	426,234
Board of Education	31,880	0	0	0	31,880
Administration	877,605	0	0	26,810	904,415
Fiscal	250,406	0	4,300	1,020	255,726
Business	35,059	0	0	0	35,059
Operation and Maintenance of Plant	1,065,412	5,713	0	75,280	1,146,405
Pupil Transportation	876,777	0	0	1,182	877,959
Central	5,040	0	0	5,000	10,040
Operation of Non-Instructional Services:					
Food Services	649	464,834	0	0	465,483
Other	1,513	0	0	0	1,513
Extracurricular Activities	105,533	0	0	66,185	171,718
Capital Outlay	0	0	0	102,882	102,882
Debt Service:					
Principal Retirement	938	0	85,000	0	85,938
Interest and Fiscal Charges	223	0	90,125	0	90,348
<i>Total Expenditures</i>	<u>9,735,291</u>	<u>470,547</u>	<u>179,425</u>	<u>857,754</u>	<u>11,243,017</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>835,556</u>	<u>(12,440)</u>	<u>1,059</u>	<u>(50,549)</u>	<u>773,626</u>
<b><u>Other Financing Sources (Uses):</u></b>					
Transfers In	0	0	0	275,010	275,010
Transfers Out	(275,010)	0	0	0	(275,010)
<i>Total Other Financing Sources (Uses)</i>	<u>(275,010)</u>	<u>0</u>	<u>0</u>	<u>275,010</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	560,546	(12,440)	1,059	224,461	773,626
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>5,361,812</u>	<u>(16,046)</u>	<u>732,864</u>	<u>395,450</u>	<u>6,474,080</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$5,922,358</u>	<u>(\$28,486)</u>	<u>\$733,923</u>	<u>\$619,911</u>	<u>\$7,247,706</u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of the Change in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$773,626

**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	313,269	
Depreciation expense	<u>(947,192)</u>	
Excess of capital outlay under depreciation expense		(633,923)

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	(6,295)	
Interest	(12,742)	
Intergovernmental	<u>(17,334)</u>	
		(36,371)

The internal service fund used by management to charge the costs of insurance to individual funds is reported in the entity-wide Statement of Activities 54,866

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, this amount consisted of:

Bond payments	85,000	
Capital lease payments	<u>938</u>	
Total long-term debt repayment		85,938

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the Statement of Activities is the result of the following:

Decrease in accrued interest		315
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences payable		<u>5,289</u>
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**Change in Net Assets of Governmental Activities** \$249,740

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Property Taxes	\$1,734,690	\$1,730,494	\$1,629,424	(\$101,070)
Intergovernmental	7,766,577	7,770,332	7,913,594	143,262
Interest	224,891	225,000	315,191	90,191
Tuition and Fees	652,438	652,755	615,372	(37,383)
Rent	5,098	5,100	5,123	23
Gifts and Donations	4,998	5,000	2,201	(2,799)
Miscellaneous	23,639	23,650	45,271	21,621
<i>Total Revenues</i>	<u>10,412,331</u>	<u>10,412,331</u>	<u>10,526,176</u>	<u>113,845</u>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	4,917,630	4,891,389	4,891,389	0
Special	657,891	654,380	654,380	0
Vocational	235,112	233,857	233,857	0
Student Intervention Services	59,507	59,189	59,189	0
Support Services:				
Pupils	311,941	310,276	310,276	0
Instructional Staff	349,813	347,946	347,946	0
Board of Education	32,222	32,050	32,050	0
Administration	883,097	878,385	878,385	0
Fiscal	254,641	253,282	253,282	0
Business	32,579	32,405	32,405	0
Operation and Maintenance of Plant	1,118,707	1,112,737	1,112,737	0
Pupil Transportation	889,918	885,166	885,166	0
Central	5,067	5,040	5,040	0
Operation of Non-Instructional Services	2,174	2,162	2,162	0
Extracurricular Activities	110,969	110,377	110,377	0
Capital Outlay	952	947	947	0
<i>Total Expenditures</i>	<u>9,862,217</u>	<u>9,809,588</u>	<u>9,809,588</u>	<u>0</u>
<i>Excess of Revenues Over Expenditures</i>	<u>550,114</u>	<u>602,743</u>	<u>716,588</u>	<u>113,845</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	30,000	30,000	0	(30,000)
Advances In	60,000	60,000	19,438	(40,562)
Proceeds from Sale of Capital Assets	0	0	32	32
Refund of Prior Year Expenditures	6,900	6,900	0	(6,900)
Transfers Out	(276,485)	(275,010)	(275,010)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(179,585)</u>	<u>(178,110)</u>	<u>(255,540)</u>	<u>(77,430)</u>
<i>Net Change in Fund Balance</i>	370,529	424,633	461,048	36,415
<i>Fund Balance at Beginning of Year</i>	6,315,394	6,315,394	6,315,394	0
<i>Prior Year Encumbrances Appropriated</i>	109,177	109,177	109,177	0
<i>Fund Balance at End of Year</i>	<u>\$6,795,100</u>	<u>\$6,849,204</u>	<u>\$6,885,619</u>	<u>\$36,415</u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Food Service Fund  
For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Intergovernmental	\$169,300	\$169,300	\$155,203	(\$14,097)
Customer Sales and Services	273,975	273,975	283,818	9,843
Miscellaneous	1,150	1,150	448	(702)
<i>Total Revenues</i>	<u>444,425</u>	<u>444,425</u>	<u>439,469</u>	<u>(4,956)</u>
<b><u>Expenditures:</u></b>				
Current:				
Operation and Maintenance of Plant	5,979	5,877	5,877	0
Operation of Non-Instructional Services:				
Food Services	443,521	435,985	435,985	0
<i>Total Expenditures</i>	<u>449,500</u>	<u>441,862</u>	<u>441,862</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(5,075)	2,563	(2,393)	(4,956)
<b>Other Financing Sources</b>				
Advances In	20,000	20,000	0	(20,000)
<i>Net Change in Fund Balance</i>	14,925	22,563	(2,393)	(24,956)
<i>Fund Balance at Beginning of Year</i>	<u>14,215</u>	<u>14,215</u>	<u>14,215</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$29,140</u></u>	<u><u>\$36,778</u></u>	<u><u>\$11,822</u></u>	<u><u>(\$24,956)</u></u>

See accompanying notes to the basic financial statements



***Lynchburg Clay Local School District***

Statement of Fund Net Assets

Internal Service Fund

June 30, 2007

	<u>Self-Insurance</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$214,600</u>
<b><u>Liabilities</u></b>	
Intergovernmental Payable	58,329
Claims Payable	<u>14,796</u>
<i>Total Liabilities</i>	<u>73,125</u>
<b><u>Net Assets</u></b>	
Unrestricted	<u><u>\$141,475</u></u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2007

	Self-Insurance	Totals (Memorandum Only)
<b><u>Operating Revenues</u></b>		
Charges for Services	\$1,158,596	\$1,158,596
<b><u>Operating Expenses</u></b>		
Purchased Services	871,633	871,633
Claims	233,099	233,099
<i>Total Operating Expenses</i>	1,104,732	1,104,732
<i>Net Income</i>	53,864	53,864
<b><u>Non-Operating Revenues</u></b>		
Interest	1,002	1,002
<i>Change in Net Assets</i>	54,866	54,866
<i>Net Assets at Beginning of Year</i>	86,609	86,609
<i>Net Assets at End of Year</i>	\$141,475	\$141,475

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Cash Flows  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2007

	<u>Self-Insurance</u>
<i>Increase in Cash and Cash Equivalents</i>	
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Interfund Services Provided	\$1,158,596
Cash Payments to Suppliers for Goods and Services	(871,633)
Cash Payments for Claims	<u>(357,149)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(70,186)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Repayment of Loans from Other Governments	17,060
Short-Term Loans from Other Governments	<u>58,329</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>75,389</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest	<u>1,002</u>
<i>Increase in Cash and Cash Equivalents</i>	6,205
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>208,395</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$214,600</u></u>
<b>Reconciliation of Operating Income to Net Cash</b>	
<b><u>Used for Operating Activities</u></b>	
Operating Income	\$53,864
<b>Adjustments to Reconcile Operating Income to</b>	
<b><u>Net Cash Used for Operating Activities</u></b>	
Decrease in Claims Payable	<u>(124,050)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$70,186)</u></u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$148,671	\$31,251
<b><u>Liabilities:</u></b>		
Undistributed Monies	0	\$31,251
<b><u>Net Assets:</u></b>		
Held in Trust for Scholarships	\$148,671	

See accompanying notes to the basic financial statements

***Lynchburg Clay Local School District***  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2007**

	Private Purpose Trust
	Scholarship
<b><u>Additions:</u></b>	
Interest	\$5,468
<b><u>Deductions:</u></b>	
Payments in Accordance with Trust Agreements	1,000
<i>Change in Net Assets</i>	4,468
<i>Net Assets at Beginning of Year</i>	144,203
<i>Net Assets at End of Year</i>	\$148,671

See accompanying notes to the basic financial statements

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 113 square miles. It is located in Highland, Clinton and Brown Counties, and includes all of the Villages of Lynchburg, Buford and Dodson and portions of Hamer, Union and White Oak Townships. It is staffed by 68 non-certificated employees, 91 certificated personnel and seven administrative employees who provide services to 1,378 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

**Reporting Entity**

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lynchburg Clay Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its Internal Service Fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**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 activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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



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

Fund Financial Statements

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

**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. The funds of the School District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

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

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

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

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

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

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

Proprietary Funds

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

Internal Service Fund - Internal Service Funds account for the financing of services provided by one department or agency to the other departments or agencies of the School District. The Internal Service Fund is used to account for dental and vision benefits provided to employees, the final payout of claims for medical benefits in relation to the claims servicing pool that the School District was a member of prior to 2007 and the collection and payment of premiums for medical insurance to the insurance purchasing pool.

Fiduciary Funds:

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

**C. Measurement Focus**

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.

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

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.

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

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

Revenues-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that 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.

**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 as an advance, customer sales, student fees, grants and interest.

**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 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.

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

**E. Budgetary Process**

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

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts 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 matched appropriations to expenditures and encumbrances for the fiscal year in the General Fund and Food Service Fund.

**F. Cash and Cash Equivalents**

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

During fiscal year 2007, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), negotiable certificates of deposit, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal Home Loan Bank Step Up Coupon Bonds, Federal Home Loan Mortgage Corporation Step Up Medium Term Notes, Federal National Mortgage Association Medium Term Notes, and Federal National Mortgage Association Notes. Investments are reported at fair value which is based on quoted market price.

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

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.

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 \$343,856, which includes \$61,761 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. Inventory**

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

**H. Capital Assets**

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

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

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

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
Buildings and Building Improvements	20-50 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	8 years
Books and Educational Media	6 years

**I. Interfund Balances**

On the fund financial statements, short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable.” Long-term interfund loan receivables and payables are reported as “Advances to Other Funds” and “Advances from Other Funds” and are equally offset by a fund balance reserve in the funds making the advances, which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

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

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

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

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

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

**K. Accrued Liabilities and Long-term Obligations**

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

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

**L. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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.

**M. Restricted Assets**

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



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

**N. Fund Balance Reserves**

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

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

**O. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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 expenditures for specified purposes.

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

The government-wide Statement of Net Assets reports \$1,391,294 of restricted net assets, none of which are restricted by enabling legislation.

**P. Estimates**

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

**NOTE 3 - ACCOUNTABILITY**

At June 30, 2007, the Food Service, Title I, and Drug Free School Grant Special Revenue Funds had deficit fund balances of \$28,486, \$1,896, and \$47, 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 (Non-GAAP Basis) and Actual for the General Fund and the Food Service Special Revenue Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to Balance Sheet transactions (GAAP basis).
5. The change in fair value of investments is not included on the budget basis operating statement. This amount is included on the GAAP basis operating statement.

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

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** (Continued)

Net Change in Fund Balance		Food
	General	Service
GAAP Basis	\$560,546	(\$12,440)
Adjustments:		
Revenue Accruals	(62,644)	(18,638)
Decrease in Fair Market Value of Investments Fiscal Year 2007	81,017	0
Decrease in Fair Market Value of Investments Fiscal Year 2006	(63,012)	0
Expenditure Accruals	91,339	37,179
Encumbrances	(165,636)	(8,494)
Advances	19,438	0
Budget Basis	\$461,048	(\$2,393)

**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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

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.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,446,324 of the School District's bank balance of \$2,839,076 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation (FDIC).

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

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

Investments

As of June 30, 2007, the School District had the following investments, which are in an internal investment pool:

	<u>Fair Value</u>	<u>Cost or Maturity</u>
STAROhio	\$169,188	Average 35 Days
Negotiable Certificates of Deposit	140,000	Less than one year
Federal Home Loan Bank Bonds	700,658	Less than three year
Federal Home Loan Mortgage Corporation Medium Term Notes	1,197,811	Less than three years
Federal Home Loan Bank Step Up Coupon Bonds	1,731,098	Less than four years
Federal Home Loan Mortgage Corporation Step Up Medium Term Notes	994,375	Less than four years
Federal National Mortgage Association Medium Term Notes	398,624	Less than four years
Federal National Mortgage Association Notes	992,345	Less than five years
Total Investments	<u>\$6,324,099</u>	

Interest Rate Risk

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

Credit Risk

STAROhio carries a rating of AAAM by Standard and Poor's. The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal Home Loan Bank Step Up Coupon Bonds, Federal Home Loan Mortgage Corporation Step Up Medium Term Notes, Federal National Mortgage Association Medium Term Notes, and Federal National Mortgage Association Notes carry ratings of Aaa by Moodys. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable certificates of deposit are in denominations of under \$100,000 each, in separate banks, and are insured by the FDIC. The negotiable certificates of deposit are, therefore, not subject to credit risk. The School District has no investment policy that addresses credit risk.

**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

Custodial Credit Risk

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

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 11 percent is invested in Federal Home Loan Bank Bonds, 19 percent is invested in Federal Home Loan Mortgage Corporation Medium Term Notes, 27 percent is invested in Federal Home Loan Bank Step Up Coupon Bonds, 16 percent is invested in Federal Home Loan Mortgage Corporation Step Up Medium Term Notes, 6 percent is invested in Federal National Mortgage Association Medium Term Notes, and 16 percent is invested in Federal National Mortgage Association Notes.

**NOTE 6 - PROPERTY TAXES**

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

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.

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
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**NOTE 6 - PROPERTY TAXES** (Continued)

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.

The School District receives property taxes from Highland, Clinton and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties 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.

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 were levied to finance current fiscal year operations and are 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.

The amount available as an advance at June 30, 2007 was \$48,430 in the General Fund, \$4,794 in the Debt Service Fund, and \$1,108 in the Classroom Facilities Fund. The amount available as an advance at June 30, 2006, was \$37,910 in the General Fund, \$3,770 in the Debt Service fund, and \$918 in the Classroom Facilities Fund.

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

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 6 - PROPERTY TAXES** (Continued)

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 Property	\$74,901,170	91.04%	\$84,488,690	92.38%
Public Utility Personal	3,903,570	4.74%	3,815,580	4.17%
General Business Personal	3,467,979	4.22%	3,156,953	3.45%
Total Assessed Value	<u>\$82,272,719</u>	<u>100.00%</u>	<u>\$91,461,223</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$28.00		\$28.00	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2007, consisted of interest, accounts, interfund, intergovernmental grants, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs. All receivables will be collected within one year except for property taxes. 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>	
Food Service - Federal Lunch Reimbursement	\$24,467
Ohio CORE Grant	19,975
IDEA-B	19,948
Title I Grant	39,210
Title V Grant	702
Drug Free Schools Grant	1,115
Improving Teacher Quality Grant	7,402
Title VI-R Grant	72
Miscellaneous	6,172
Total Intergovernmental Receivable	<u>\$119,063</u>



Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**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 Asset Not Being Depreciated:				
Land	\$405,668	\$0	\$0	\$405,668
Construction in Progress	0	102,882	0	102,882
Total Capital Assets Not Being Depreciated	405,668	102,882	0	508,550
Capital Assets Being Depreciated:				
Land Improvements	2,223,201	24,355	0	2,247,556
Buildings and Building Improvements	24,645,208	0	0	24,645,208
Furniture, Fixtures and Equipment	2,529,155	52,032	(22,967)	2,558,220
Vehicles	1,238,192	134,000	(80,504)	1,291,688
Books and Educational Media	619,971	0	0	619,971
Total Capital Assets Being Depreciated	31,255,727	210,387	(103,471)	31,362,643
Less Accumulated Depreciation:				
Land Improvements	(666,166)	(100,527)	0	(766,693)
Buildings and Building Improvements	(5,952,088)	(631,118)	0	(6,583,206)
Furniture, Fixtures and Equipment	(1,570,807)	(122,350)	22,967	(1,670,190)
Vehicles	(915,479)	(90,428)	80,504	(925,403)
Books and Educational Media	(611,597)	(2,769)	0	(614,366)
Total Accumulated Depreciation	(9,716,137)	(947,192) *	103,471	(10,559,858)
Total Capital Assets Being Depreciated, Net	21,539,590	(736,805)	0	20,802,785
Governmental Activities Capital Assets, Net	\$21,945,258	(\$633,923)	\$0	\$21,311,335

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 8 - CAPITAL ASSETS** (Continued)

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$512,691
Special	56,935
Vocational	26,601
Support Services:	
Pupils	18,759
Instructional Staff	23,930
Administration	77,324
Fiscal	641
Operation and Maintenance of Plant	38,634
Pupil Transportation	91,849
Central	2,031
Operation of Non-Instructional Services:	
Food Services	95,153
Extracurricular Activities	2,644
Total Depreciation Expense	<u><u>\$947,192</u></u>

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Indiana Insurance for property insurance, fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents - at replacement cost (\$1,000 deductible)	\$21,856,989
Commercial Computer Coverage (\$500 deductible)	100,000
Musical Instruments Coverage (\$500 deductible)	100,000

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 9 - RISK MANAGEMENT** (Continued)

General Liability:	
Aggregate Limit	\$3,000,000
Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense	2,000,000
Personal and Advertising Injury Limit - Each Offense	2,000,000
Medical Expense Limit - Per Person/Accident	15,000
Medical Expense Limit - Each Accident	15,000
Fire Damage Limit - Any One Event	300,000
Employer's Liability:	
Bodily Injury - Each Accident	2,000,000
Bodily Injury - Endorsement Limit	2,000,000
Bodily Injury by Disease - Each Employee	2,000,000
Employee Benefits Liability:	
Per Claim	2,000,000
Aggregate Limit	3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit (\$2,500 deductible)	2,000,000
Errors and Omissions Aggregate Limit	2,000,000
Employment Practices Injury Limit (\$2,500 deductible)	2,000,000
Employment Practices Aggregate Limit	2,000,000
Defense Costs Cap	100,000
Defense Costs Aggregate Cap	100,000
Fleet / Automobile Liability (deductibles \$500 collision, \$250 comprehensive)	
Liability	1,000,000
Uninsured Motorists Coverage	1,000,000
Sexual Misconduct and Molestation Liability Coverage	
Each Loss Limit	2,000,000
Aggregate Limit	2,000,000
Defense Costs Aggregate Cap	300,000

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

**NOTE 9 - RISK MANAGEMENT** (Continued)

**B. Workers' Compensation**

For fiscal year 2007, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Medical, Vision and Dental Benefits**

Prior to fiscal year 2007, the School District was a member of a claims servicing pool that provided medical/surgical coverage to employees through a self insurance internal service fund. The School District paid monthly premiums to the fiscal agent, who in turn paid the claims on the School District's behalf. Vision and dental benefits are provided through a self insurance program. The School District reviews and pays all claims for vision and dental provided by Medical Mutual. The information presented below represents the payout of medical/surgical claims after the School District left the claims servicing pool and an estimate of vision and dental claims. The claims liability of \$14,796 reported in the Internal Service Fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2006	\$119,243	\$1,328,530	\$1,308,927	\$138,846
2007	138,846	233,099	357,149	14,796

**NOTE 9 - RISK MANAGEMENT** (Continued)

**D. Employee Medical Benefits**

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), an insurance purchasing pool (Note 16) consisting of eight members. The Consortium has elected to have Humana provide medical coverage purchased as a group through the Consortium. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage benefits. The Consortium is responsible for the management and operation of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions relating to the medical insurance related to its employees from the date of termination, regardless of the date such claims were incurred.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling toll-free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 \$142,316, \$156,799 and \$134,649 respectively; 50.40 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (Continued)

**B. State Teachers Retirement System**

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](http://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 credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 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.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (Continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$573,135, \$535,219, and \$501,157 respectively; 83.85 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$7,641 made by the School District and \$8,431 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.

**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-certificated 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 \$44,087 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

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

**NOTE 11 - POSTEMPLOYMENT BENEFITS** (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 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 \$64,849.

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 at 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 59,492 participants eligible to receive benefits.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Special Termination Benefits**

The School District offers an Early Notice of Retirement Incentive program to all employees who are eligible to retire from either SERS or STRS. The employees who give written notice of the intended retirement date on or before March 1<sup>st</sup> of the year in which they intend to retire will receive an incentive payment. The employees may exercise this option in the first, second, or third year of eligibility for retirement. The incentive amount is calculated by multiplying an average of the last three full years' wages by the years of service and a factor rate. The factor rate is .005 for the first year, .0033 for the second year, and .0025 for the third year. Payment is made on June 1 of the year in which the employee retires. During fiscal year 2007, one employee received the special termination benefit in the amount of \$7,018, but was not paid until July 27, 2007.



Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 12 - EMPLOYEE BENEFITS** (Continued)

**C. Insurance Benefits**

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

**NOTE 13 - CAPITAL LEASES—LESSEE DISCLOSURE**

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

Principal payments in fiscal year 2007 totaled \$938 in the General Fund.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Copiers	\$4,500
Less: Accumulated Depreciation	(2,700)
Total	\$1,800

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

	Fiscal year Ending June 30,	Total Payments
	2008	\$1,159
	2009	581
Total		1,740
Less: Amount Representing Interest		(136)
Present Value of Minimum Lease Payments		\$1,604

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 14 - LONG-TERM OBLIGATIONS**

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

	Amounts Outstanding 6/30/2006	Additions	Deductions	Amounts Outstanding 6/30/2007	Amounts Due in One Year
Governmental Activities:					
1998 School Improvement					
Bonds, 3.8%	\$1,805,000	\$0	\$85,000	\$1,720,000	\$90,000
Capital Leases	2,542	0	938	1,604	1,040
Compensated Absences	397,895	33,691	38,980	392,606	48,803
Total Governmental Activities	<u>\$2,205,437</u>	<u>\$33,691</u>	<u>\$124,918</u>	<u>\$2,114,210</u>	<u>\$139,843</u>

**School Improvement Bonds** - In July 1998, the School District issued school improvement bonds in the amount of \$2,330,600 for the construction of a new elementary school, a new high school and renovations to the old high school building to be used as a middle school. The bonds were issued for a twenty-three year period with final maturity in fiscal year 2022. The bonds will be paid from the Debt Service Fund.

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

The School District's overall legal debt margin was \$6,912,839 with an unvoted debt margin of \$87,766 at June 30, 2007.

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2007, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2008	\$90,000	\$86,209	\$176,209
2009	90,000	82,136	172,136
2010	95,000	77,904	172,904
2011	100,000	72,906	172,906
2012	105,000	67,141	172,141
2013-2017	620,000	239,625	859,625
2018-2022	620,000	63,750	683,750
Total	<u>\$1,720,000</u>	<u>\$689,671</u>	<u>\$2,409,671</u>

**NOTE 15 - 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, and a representative of the fiscal agent. The School District paid SCOCA \$83,591 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

**B. Hopewell Special Education Regional Resource Center**

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Eighteen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own advisory board. The advisory board is made up of superintendents from the eighteen school districts or their designee, plus a representative from the Southern Ohio Educational Service Center, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Southern Ohio Educational Service Center acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and federal and State grants. To obtain financial information, write to Hopewell at the Southern Ohio Educational Service Center, 3321 Airborne Drive, Wilmington, Ohio, 45177.

**C. Great Oaks Institute of Technology and Career Development**

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

**NOTE 16 - INSURANCE PURCHASING POOL**

**A. Brown County School Employees Benefits Consortium**

The Brown County Schools Benefits Consortium, an insurance purchasing pool, currently operates to provide medical insurance to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational, and Western Brown Schools) along with the Brown County Educational Service Center and Lynchburg-Clay Local School District in Highland County have entered into an agreement to form the Brown County Schools Benefits Consortium. The Consortium is governed by a seven member board consisting of the superintendents of each participating school district along with the superintendent of the Brown County Educational Service Center. The overall objectives of the consortium are to formulate and administer a program of medical insurance for the benefit of the consortium members' employees and their dependents.

The consortium contracts with Humana to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. Participating member district's pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

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

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

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

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 School District is no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers' Compensation prior to April 10, 2001, which must be retained for budget stabilization or spent for specified purposes.

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

	Textbooks and Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2006	(\$354,677)	\$0	\$30,409
Current Fiscal Year Set-aside Requirement	199,528	199,528	0
Qualifying Disbursements	(379,006)	(741,802)	0
Current Fiscal Year Offsets	0	(92,253)	0
Totals	(\$534,155)	(\$634,527)	\$30,409
Set-Aside Balance Carried Forward to Future Fiscal Years	(\$534,155)	\$0	\$30,409
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0	\$30,409

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

**NOTE 18 - INTERFUND ACTIVITY**

**A. Interfund Receivables/Payables**

As of June 30, 2007, receivables and payables that resulted from various interfund transactions were as follows:

		Receivable General Fund
<b>Payable</b>	All Other Governmental Funds	\$11,908

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 18 - INTERFUND ACTIVITY** (Continued)

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

**B. Interfund Transfers**

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

		<u>Transfer From General Fund</u>
Transfer To	All Other Governmental Funds	<u>\$275,010</u>

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

**C. Advances To/From Other Funds**

As of June 30, 2007, receivables and payables that resulted from various long-term advances were as follows:

		<u>Advances From General Fund</u>
Advances To	Food Service	<u>\$31,938</u>

The advance from the General Fund to the Food Service Special Revenue Fund was made to support programs and projects accounted for in that fund. The General Fund will be reimbursed when the monies are received in the Food Service Fund.

Lynchburg Clay Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 19 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

The School District not currently party to legal proceedings.

**NOTE 20 - CONSTRUCTION COMMITMENTS**

The School District contracted for the construction of athletic facilities. The project began in the 2007 fiscal year and will be completed in fiscal year 2008. The significant outstanding construction commitments at June 30, 2007 are as follows:

<u>Contractor</u>	<u>Total Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/2007</u>
Elam Construction, Inc.	\$234,229	\$100,882	\$133,347
McCarty and Associates	12,250	6,250	6,000
Total	<u>\$246,479</u>	<u>\$107,132</u>	<u>\$139,347</u>

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

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$26,796	\$0	\$27,109
Nutrition Cluster:						
National School Breakfast Program	05-PU-2006 05-PU-2007	10.553	36,510		36,510	
National School Lunch Program	LL-P4-2006 LL-P4-2007	10.555	112,065		112,065	
Total Nutrition Cluster			<u>148,575</u>	<u>0</u>	<u>148,575</u>	<u>0</u>
Total U.S. Department of Agriculture			<b>148,575</b>	<b>26,796</b>	<b>148,575</b>	<b>27,109</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI B)	6B-SF-2007 6B-SF-2006	84.027	320,044	0	312,882	0
			<u>320,044</u>	<u>0</u>	<u>312,882</u>	<u>0</u>
IDEA Preschool Grant for Handicapped	PG-S1-2007 PG-S1-2006	84.173	5,013		4,482	
			<u>5,013</u>	<u>0</u>	<u>4,482</u>	<u>0</u>
Total Special Education Cluster			<b>325,057</b>	<b>0</b>	<b>317,364</b>	<b>0</b>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2006 C1-S1-2007	84.010	144,430	0	147,353	0
Innovative Educational Program Strategies	C2-S1-2006 C2-S1-2007	84.298	1,166	0	997	0
Drug-Free Schools Grant	DR-S1-2006 DR-S1-2007	84.186	5,089	0	6,560	0
Title IID, Technology Fund	TJ-S1-2006 TJ-S1-2007	84.318	2,045	0	2,542	0
Improving Teacher Quality State Grants	TR-S1-2006 TR-S1-2007	84.367	74,080	0	72,531	0
Total U.S. Department of Education			<u>551,867</u>	<u>0</u>	<u>547,347</u>	<u>0</u>
<b><u>U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Fud System (CAFS)	N/A	93.778	106	0	0	0
Total U.S. Department of Health and Human Services			<u>106</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Totals</b>			<b><u>700,548</u></b>	<b><u>26,796</u></b>	<b><u>695,922</u></b>	<b><u>27,109</u></b>

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

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

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B -- FOOD DISTRIBUTION PROGRAM**

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

**NOTE C -- CHILD NUTRITION CLUSTER**

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

**NOTE D -- COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)**

The District received a CAFS settlement of \$106 during FY '07. These amounts relate to settlements for CAFS service provided during prior years.



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined 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 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 its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated May 9, 2008.

### **Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated May 9, 2008.

We intend this report solely for the information and use of the audit committee, management, board of education and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

May 9, 2008



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Lynchburg-Clay Local School District, Highland County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Lynchburg-Clay Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

#### Internal Control Over Compliance

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

Lynchburg-Clay Local School District  
Highland County  
Independent Accountants' Report on Compliance With  
Requirements Applicable to Each Major Federal Program  
And On Internal Control Over Compliance in Accordance  
With OMB Circular A-133  
Page 2

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 9, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

May 9, 2008

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.







**Mary Taylor, CPA**  
Auditor of State

**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 3, 2008**