

Clay Local School District

Scioto County

Regular Audit

Fiscal Year Audited Under GAGAS: 2004

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Clay Local School District, Scioto County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 2, 2005

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Clay Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay Local School District (the District), Scioto County, as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.



Balestra, Harr & Scherer, CPAs, Inc.

March 17, 2005

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As management of the Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the School District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, "*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*," issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

Net assets of governmental activities decreased \$150,455, which represents a 13 percent decrease from 2003. This is primarily due to an increase in expenditures relating to salary and benefit increases for fiscal year 2004 and the net effect of increases in capital assets relating to current year additions and deletions exceeding current year depreciation and debt relating to a new issue made by the School District.

Total assets of governmental activities increased by \$484,764. Capital assets increased by \$621,876 due to increases in buildings and improvements relating to renovations being performed of the various school buildings within the School District, as well as the School District acquiring the fitness equipment relating to the capital lease entered into during fiscal year 2003. Equity in pooled cash and cash equivalents decreased \$221,364 due to the timing of the capital lease entered into during fiscal year 2003, while receivables and other current assets increased by \$84,252 due primarily to an increase in property tax receivable relating to a new valuation conducted during 2004.

General revenues accounted for \$3,345,662 in revenue or 67 percent of all total revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$1,646,470 or 33 percent of total revenues of \$4,992,132.

The School District had \$5,142,587 in expenses related to governmental activities; only \$1,646,470 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily grants, entitlements and property taxes) of \$3,345,662 were not adequate to provide for these programs.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Using the Basic Financial Statements

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

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

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 2004?"

The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. 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.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

Fiduciary Funds – The School District’s fiduciary funds are a private purpose trust fund and an agency fund. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. 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 2004 and 2003:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		Increase
	<u>2004</u>	<u>2003</u>	(Decrease)
Assets			
Current Assets	\$2,006,322	\$2,143,434	(\$137,112)
Capital Assets	1,401,122	779,246	621,876
Total Assets	<u>3,407,444</u>	<u>2,922,680</u>	484,764
Liabilities			
Long-Term Liabilities	972,563	438,394	534,169
Other Liabilities	1,469,502	1,368,452	101,050
Total Liabilities	<u>2,442,065</u>	<u>1,806,846</u>	635,219
Net Assets			
Invested in Capital Assets, Net of Related Debt	733,804	566,021	167,783
Restricted	119,423	18,438	100,985
Unrestricted	112,152	531,375	(419,223)
Total Net Assets	<u>\$965,379</u>	<u>\$1,115,834</u>	(\$150,455)

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

Total assets increased by \$484,764. This was primarily due to increases of \$621,876 and \$101,112 in capital assets and property taxes receivable, respectively, and a significant decrease of \$221,364 in equity in pooled cash and cash equivalents. The increase in capital assets was due primarily to increases in buildings and improvements relating to renovations being performed on the various school buildings within the School District, as well as the School District acquiring the fitness equipment relating to the capital lease entered into during fiscal year 2003. The increase in property taxes receivable was due primarily to the passing of the Permanent Improvement Levy in May 2003, upon which the School District began collecting during fiscal year 2004. The decrease in equity in pooled cash and cash equivalents is related to the timing of the capital lease entered into during fiscal year 2003. The School District entered into the lease with National City during the spring of 2003. At that time, the School District received the money to pay for the fitness equipment. However, the School District did not receive, nor pay for, the fitness equipment until July 2004. Total liabilities increased \$635,219. Current liabilities increased by \$101,050 due primarily to increases in accrued wages and benefits payable, intergovernmental payable, and deferred revenue. The increases within accrued wages and benefits payable, along with intergovernmental payable, totaling \$57,520 are due to increases in salaries and wages paid to School District employees. The increase of \$58,820 in deferred revenue relates to an increase in property taxes for fiscal year 2005 relating to a new valuation being conducted within Scioto County. Long-term liabilities increased by \$534,169 primarily due to the issuance of notes in the amount of \$525,000.

Invested in Capital Assets, Net of Related Debt for governmental activities increased by \$167,783 due to the net effects of the School District entering into new debt during the fiscal year and increases in capital assets relating to current year additions and deletions and current year depreciation. Restricted Net Assets for governmental activities increased by \$100,985 primarily due to the School District receiving property tax money from the Permanent Improvement Levy passed in May 2003. Unrestricted Net Assets for governmental activities decreased by \$419,223 due to increased expenditures relating to salary and benefit increases and the payment for the fitness equipment for which the revenue was received during fiscal year 2003.

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

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

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

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

(Table 2)
Change in Net Assets

	Governmental Activities <u>2004</u>
Revenues	
Program Revenues:	
Charges for Services	\$1,013,802
Operating Grants and Contributions	612,714
Capital Grants and Contributions	<u>19,954</u>
Total Program Revenues	<u>1,646,470</u>
General Revenues:	
Property Taxes	1,006,833
Grants and Entitlements not Restricted to Specific Programs	2,161,699
Contributions and Donations	3,897
Investment Earnings	6,448
Miscellaneous	<u>166,785</u>
Total General Revenues	<u>3,345,662</u>
 Total Revenues	 <u>\$4,992,132</u>
	(continued)

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

(Table 2)
Change in Net Assets
(continued)

	Governmental Activities 2004
Program Expenses	
Instruction:	
Regular	\$2,464,377
Special	579,168
Vocational	32,222
Support Services:	
Pupils	239,333
Instructional Staff	242,118
Board of Education	15,017
Administration	379,316
Fiscal	157,960
Operation and Maintenance of Plant	441,227
Pupil Transportation	220,288
Central	21,677
Operation of Non-Instructional Services - Food Service	211,060
Extracurricular Activities	117,191
Interest and Fiscal Charges	21,633
Total Expenses	5,142,587
Decrease in Net Assets	(\$150,455)

Governmental Activities

Grants and Entitlements not Restricted to Specific Programs made up 43 percent of revenues for governmental activities of the Clay Local School District for fiscal year 2004. Property Tax revenue made up 20 percent of the total revenue for governmental activities for a total of 63 percent of all revenue coming from property taxes and grants and entitlements not restricted to specific programs.

Regular instruction comprises 48 percent of governmental program expenses. Support services expenses make up 33 percent of governmental expenses.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

(Table 3)
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	2004	2004
Instruction	\$3,075,767	\$1,776,966
Support Services	1,716,936	1,617,551
Operation of Non-Instructional Services -		
Food Service	211,060	32,099
Extracurricular Activities	117,191	47,868
Interest and Fiscal Charges	21,633	21,633
Total Expenses	\$5,142,587	\$3,496,117

The School District's Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,956,715 and expenditures of \$5,735,895. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$379,404 relating to salary and benefit increases and the timing of the payment for the fitness equipment made in July 2003 for which monies were received during the spring of 2003.

General Fund - Budget Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 19, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

For the General Fund, final estimated revenues were \$4,147,678, with original estimated revenues of \$3,482,795, a difference of 19 percent. This 19 percent difference was due primarily to increases in intergovernmental revenue, interest, tuition and fees, extracurricular activities, rentals, contributions and donations, and miscellaneous revenue coupled with a decrease in property taxes. The increases in intergovernmental revenue and tuition and fees resulted from conservative estimates at the beginning of the year by the School District and an increase in open enrollment, respectively.

Final estimated expenditures were \$4,226,994, with original estimated expenditures of \$4,215,896, a difference of less than one percent. This difference of \$11,098 was due primarily to the School District attempting to monitor actual expenditures made in all line items more closely.

The School District's ending unobligated cash balance in the General Fund was \$209,534 below the final budgeted amount.

Capital Assets

At the end of fiscal year 2004 the School District had \$1,401,122 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, textbooks, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$36,900	\$36,900
Land Improvements	52,963	2,890
Buildings and Improvements	951,298	562,453
Furniture, Fixtures and Equipment	306,977	122,995
Vehicles	52,984	54,008
Totals	\$1,401,122	\$779,246

Net Capital Assets increased from the prior year. The primary increases occurred in buildings and improvements and furniture, fixtures and equipment. Buildings and improvements increased due to the renovating of the various school buildings within the School District that occurred during fiscal year 2004. The increase in furniture, fixtures and equipment is due to the School District acquiring the fitness equipment relating to the capital lease the School District entered into during fiscal year 2003. Land improvement increased from the prior year due to the School District repaving parking lots and making various improvements to the ball fields within School District, which exceeded current year depreciation. Decreases within vehicles occurred from the prior year due to depreciation exceeding purchase.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

For more information on capital assets, refer to Note 9 in the notes to the basic financial statements.

Debt

At June 30, 2004, the School District had \$525,000 Permanent Improvement Levy Anticipation Notes outstanding, of which \$105,000 is due within one year. The School District also had capital lease obligations outstanding of \$142,318, of which \$73,179 is due within one year. Table 5 summarized the outstanding debt:

(Table 5)
 Outstanding Debt, at Year End
 Governmental Activities

	2004	2003
2003 Permanent Improvement Levy		
Anticipation Notes	\$525,000	\$0
Capital Lease	142,318	213,225
Totals	\$667,318	\$213,225

On July 30, 2003, the School District issued Permanent Improvement Levy Anticipation Notes in the amount of \$525,000 for the purpose of improving facilities within the School District. The notes were issued for a five year period with final maturity on July 30, 2008. The notes will be retired from the Permanent Improvement Capital Projects Fund.

As of June 30, 2004, all of the note proceeds had been spent toward the project.

The School District has entered into a capitalized lease for exercise equipment.

The School District's overall legal debt margin was \$4,204,722 with an unvoted debt margin of \$46,719 at June 30, 2004.

For more information on capital assets, refer to Note 15 in the notes to the basic financial statements.

Current Issues

The Clay Local School District consists of three buildings: Rosemount Primary, Rubyville Elementary, and Clay High School. Our oldest building was built in 1939 and our newest in 1964. Our pupil enrollment has been stable for the past few years, ranging from 580 – 600 students.

CLAY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

During the fiscal year, the School District was not eligible for financial aid from the Ohio School Facilities Commission (OSFC) for the construction of new buildings within the School District. Therefore, the School District has attempted to renovate and maintain its current buildings in a manner conducive to classroom learning. In fact, a 4.5 mill Permanent Improvement Levy was passed by voters in May 2003 to make these improvements possible.

During fiscal year 2004, the School District was rated by the Ohio Department of Education as an Excellent School District, having satisfied 15 of 18 indicators, which are based on student proficiency test performance, student attendance and high school graduation rate. In comparison, the average number of indicators satisfied Statewide was 8.

According to the data from the Ohio Department of Education, the School District spent \$7,120 per pupil (all funds) during fiscal year 2004, which was lower than that Statewide average of \$8,754. Despite spending less per pupil in total cost, the School District spent a high proportion of expenditures (59.8%) on direct instruction compared to the State average (55.9%).

During fiscal year 2003, the School District entered into an agreement with the National School Fitness Foundation, a non-profit public charity which funds and supports fitness programs in schools. The School District entered into a three-year lease agreement with National City Bank in the amount of \$218,901 to finance the fitness equipment. The Foundations was to reimburse the School District monthly when the installment was made to National City Bank in the exchange for "Health Data." At the end of the lease agreement, the fitness equipment was to become property of the School District. In June 2004, the National School Fitness Foundation filed for Chapter 11 reorganization. On July 1, 2004, the United States Bankruptcy Court converted the case to a Chapter 13 dissolution proceeding. At that time, the National School Fitness Foundation ceased reimbursements to the School District, leaving a balance of \$160,251 to be reimbursed. Currently, the case is under investigation within the Ohio Attorney General's office.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Betty Applegate, Treasurer at Clay Local School District, 44 Clay High Street, Portsmouth, Ohio 45662, or email betty_cl@scoca-k12.org.

CLAY LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$809,454
Materials and Supplies Inventory	8,182
Intergovernmental Receivable	25,706
Prepaid Items	19,384
Property Taxes Receivable	1,138,357
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	5,239
Capital Assets:	
Land	36,900
Depreciable Capital Assets, Net	<u>1,364,222</u>
<i>Total Assets</i>	<u>3,407,444</u>
<u>Liabilities:</u>	
Accounts Payable	19,190
Accrued Wages and Benefits Payable	321,627
Intergovernmental Payable	118,234
Accrued Interest Payable	15,929
Deferred Revenue	994,522
Long-Term Liabilities:	
Due Within One Year	216,460
Due in More Than One Year	<u>756,103</u>
<i>Total Liabilities</i>	<u>2,442,065</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	733,804
Restricted for Capital Outlay	119,423
Unrestricted	<u>112,152</u>
<i>Total Net Assets</i>	<u><u>\$965,379</u></u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Total Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,464,377	\$851,427	\$65,238	\$15,400	(\$1,532,312)
Special	579,168	0	360,067	0	(219,101)
Vocational	32,222	0	6,669	0	(25,553)
Support Services:					
Pupils	239,333	31,268	6,518	0	(201,547)
Instructional Staff	242,118	0	49,625	0	(192,493)
Board of Education	15,017	0	0	0	(15,017)
Administration	379,316	0	0	0	(379,316)
Fiscal	157,960	0	1,493	0	(156,467)
Operation and Maintenance of Plant	441,227	105	0	0	(441,122)
Pupil Transportation	220,288	0	5,822	4,554	(209,912)
Central	21,677	0	0	0	(21,677)
Operation of Non-Instructional Services - Food Service	211,060	78,030	100,931	0	(32,099)
Extracurricular Activities	117,191	52,972	16,351	0	(47,868)
Interest and Fiscal Charges	21,633	0	0	0	(21,633)
Total Governmental Activities	\$5,142,587	\$1,013,802	\$612,714	\$19,954	(3,496,117)
<u>General Revenues:</u>					
Property Taxes Levied for:					
General Purposes					860,421
Capital Outlay					146,412
Grants and Entitlements not Restricted to Specific Programs					2,161,699
Contributions and Donations					3,897
Investment Earnings					6,448
Miscellaneous					166,785
Total General Revenues					3,345,662
Change in Net Assets					(150,455)
Net Assets Beginning of Year - See Note 3					1,115,834
Net Assets End of Year					\$965,379

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$682,141	\$109,610	\$17,703	\$809,454
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	5,239	0	0	5,239
Receivables:				
Taxes	941,016	197,341	0	1,138,357
Intergovernmental	0	0	25,706	25,706
Interfund	11,653	0	0	11,653
Prepaid Items	19,384	0	0	19,384
Materials and Supplies Inventory	7,025	0	1,157	8,182
<i>Total Assets</i>	<u>\$1,666,458</u>	<u>\$306,951</u>	<u>\$44,566</u>	<u>\$2,017,975</u>
 <u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$14,021	\$5,169	\$0	\$19,190
Accrued Wages and Benefits Payable	292,754	0	28,873	321,627
Intergovernmental Payable	78,489	0	4,167	82,656
Interfund Payable	0	0	11,653	11,653
Deferred Revenue	886,439	185,062	980	1,072,481
<i>Total Liabilities</i>	<u>1,271,703</u>	<u>190,231</u>	<u>45,673</u>	<u>1,507,607</u>
 <u>Fund Balances:</u>				
Reserved for Encumbrances	16,204	63,921	0	80,125
Reserved for Property Taxes	54,577	12,279	0	66,856
Reserved for Bus Purchases	5,239	0	0	5,239
Unreserved, Undesignated (Deficit), Reported in:				
General Fund	318,735	0	0	318,735
Special Revenue Funds	0	0	(1,107)	(1,107)
Capital Projects Funds	0	40,520	0	40,520
<i>Total Fund Balances (Deficit)</i>	<u>394,755</u>	<u>116,720</u>	<u>(1,107)</u>	<u>510,368</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,666,458</u>	<u>\$306,951</u>	<u>\$44,566</u>	<u>\$2,017,975</u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balances \$510,368

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

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

Land	36,900	
Other capital assets	3,835,574	
Accumulated depreciation	<u>(2,471,352)</u>	
Total capital assets		1,401,122

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	76,979	
Intergovernmental	<u>980</u>	
		77,959

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (35,578)

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

Notes payable	(525,000)	
Accrued interest on notes	(15,929)	
Capital leases	(142,318)	
Compensated absences	<u>(305,245)</u>	
Total liabilities		<u>(988,492)</u>

Net Assets of Governmental Activities \$965,379

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$833,013	\$135,762	\$0	\$968,775
Intergovernmental	2,193,354	19,509	567,794	2,780,657
Interest	6,448	0	0	6,448
Tuition and Fees	851,427	0	0	851,427
Extracurricular Activities	84,240	0	0	84,240
Rentals	105	0	0	105
Customer Sales and Service	0	0	78,030	78,030
Contributions and Donations	20,248	0	0	20,248
Miscellaneous	155,339	3,931	7,515	166,785
<i>Total Revenues</i>	<u>4,144,174</u>	<u>159,202</u>	<u>653,339</u>	<u>4,956,715</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,376,157	0	214,927	2,591,084
Special	381,696	0	197,808	579,504
Vocational	29,363	0	0	29,363
Support Services:				
Pupils	216,142	0	14,668	230,810
Instructional Staff	196,762	0	43,215	239,977
Board of Education	15,017	0	0	15,017
Administration	352,934	3,082	0	356,016
Fiscal	139,183	0	1,493	140,676
Operation and Maintenance of Plant	341,780	0	130	341,910
Pupil Transportation	216,975	0	0	216,975
Central	21,121	0	0	21,121
Operation of Non-Instructional Services - Food Service	0	0	207,966	207,966
Extracurricular Activities	124,790	0	0	124,790
Capital Outlay	6,987	557,088	0	564,075
Debt Service:				
Principal Retirement	70,907	0	0	70,907
Interest and Fiscal Charges	5,704	0	0	5,704
<i>Total Expenditures</i>	<u>4,495,518</u>	<u>560,170</u>	<u>680,207</u>	<u>5,735,895</u>
Excess of Revenues Under Expenditures	<u>(351,344)</u>	<u>(400,968)</u>	<u>(26,868)</u>	<u>(779,180)</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Notes	0	525,000	0	525,000
Transfers In	0	0	28,060	28,060
Transfers Out	(28,060)	0	0	(28,060)
<i>Total Other Financing Sources (Uses)</i>	<u>(28,060)</u>	<u>525,000</u>	<u>28,060</u>	<u>525,000</u>
<i>Net Change in Fund Balances</i>	(379,404)	124,032	1,192	(254,180)
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note 3)</i>	<u>774,159</u>	<u>(7,312)</u>	<u>(2,299)</u>	<u>764,548</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$394,755</u>	<u>\$116,720</u>	<u>(\$1,107)</u>	<u>\$510,368</u>

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$254,180)

*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	732,387	
Depreciation expense	(110,511)	
Excess of capital outlay over depreciation expense		621,876

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	38,058	
Intergovernmental	(2,641)	
		35,417

Note proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

Proceeds of notes		(525,000)
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Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital lease payments		70,907
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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:

Increase in compensated absences payable	(80,076)	
Increase in accrued interest payable	(15,929)	
Increase in intergovernmental payable	(3,470)	
Total increase		(99,475)

Change in Net Assets of Governmental Activities (\$150,455)

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$995,000	\$950,155	\$836,717	(\$113,438)
Intergovernmental	1,618,254	2,079,916	2,193,354	113,438
Interest	5,017	6,448	6,448	0
Tuition and Fees	662,443	851,427	851,427	0
Extracurricular Activities	65,542	84,240	84,240	0
Rentals	82	105	105	0
Contributions and Donations	15,754	20,248	20,248	0
Miscellaneous	120,704	155,139	155,139	0
<i>Total Revenues</i>	<u>3,482,795</u>	<u>4,147,678</u>	<u>4,147,678</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	1,690,181	1,766,315	1,766,315	0
Special	281,081	370,536	370,536	0
Vocational	31,459	30,094	30,094	0
Other	60,736	568,150	568,150	0
Support Services:				
Pupils	245,456	215,530	215,530	0
Instructional Staff	240,257	196,069	196,069	0
Board of Education	19,476	14,753	14,753	0
Administration	408,349	348,388	348,388	0
Fiscal	152,591	140,517	140,517	0
Operation and Maintenance of Plant	432,000	331,795	331,795	0
Pupil Transportation	259,039	223,313	223,313	0
Central	28,958	21,000	21,000	0
Extracurricular Activities	100,701	126,470	126,470	0
Capital Outlay	189,000	6,987	6,987	0
Debt Service:				
Principal Retirement	70,913	70,907	70,907	0
Interest and Fiscal Charges	5,699	5,704	5,704	0
<i>Total Expenditures</i>	<u>4,215,896</u>	<u>4,436,528</u>	<u>4,436,528</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(733,101)</u>	<u>(288,850)</u>	<u>(288,850)</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	200	200	200	0
Transfers Out	(30,000)	(28,060)	(28,060)	0
Advances In	26,917	4,488	4,488	0
Advances Out	(15,000)	(11,653)	(11,653)	0
<i>Total Other Financing Sources</i>	<u>(17,883)</u>	<u>(35,025)</u>	<u>(35,025)</u>	<u>0</u>
Net Change in Fund Balance	(750,984)	(323,875)	(323,875)	0
Fund Balance at Beginning of Year	741,272	741,272	741,272	0
Prior Year Encumbrances Appropriated	239,758	239,758	239,758	0
Fund Balance at End of Year	<u>\$230,046</u>	<u>\$657,155</u>	<u>\$657,155</u>	<u>\$0</u>

CLAY LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	Agency
	<hr/>	<hr/>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$630	\$17,323
		<hr/> <hr/>
<u>Liabilities:</u>		
Undistributed Monies	\$0	\$17,323
	<hr/>	<hr/> <hr/>
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$630	
	<hr/> <hr/>	

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust
	Scholarships
<u>Additions:</u>	
Gifts and Donations	\$630
<u>Deductions:</u>	
Scholarships	0
<i>Change in Net Assets</i>	630
<i>Net Assets Beginning of Year</i>	0
<i>Net Assets End of Year</i>	\$630

See accompanying notes to the basic financial statements

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1909 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 19.93 square miles. It is located in Scioto County, and includes Clay Township. It is staffed by 27 non-certificated employees, 46 certificated full-time teaching personnel and 4 administrative employees who provide services to 588 students and other community members. The School District currently operates 3 instructional buildings and 2 storage buildings.

Reporting Entity:

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

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

The School District participates in six organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Coalition of Rural and Appalachian Schools, the Pilasco-Ross Special Education Regional Resource Center, the Scioto County Schools Council of Governments (the Council), the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

Fiduciary Funds:

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

C. Measurement Focus

Government-wide Financial Statements

The government-wide 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.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the 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 in the final column of the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

F. Cash and Cash Equivalents

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

During fiscal year 2004, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio) and repurchase agreements. Repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$6,448, which includes \$1,334 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 expensed/expensed when used. Inventory consists of materials and supplies held for consumption and donated and purchased food.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Capital Assets

All capital assets of the School District are general capital assets. General capital assets 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) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 20 years
Buildings and Improvements	5 - 60 years
Furniture, Fixtures and Equipment	5 - 20 years
Textbooks	10 years
Vehicles	4 - 10 years

K. 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 payment 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions 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 year. Capital leases and notes payable that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

M. Interfund Transactions

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

N. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District for the purchase of buses.

O. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Q. Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School District has implemented GASB Statement No. 34, “*Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,*” GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, GASB Statement No. 39, “*Determining Whether Certain Organizations are Component Units*”, GASB Statement No. 41, “*Budgetary Comparison Schedules - Perspective Differences.*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosure.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “*The Financial Reporting Entity*”. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the General and Major Special Revenue Funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

The implementation of these statements, the reclassification of the Food Service Fund from an enterprise fund to a special revenue fund, and the increase in the capitalization thresh hold from five hundred to one thousand dollars had the following effect on the fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Permanent Improvement	Nonmajor	Total
Fund Balances, June 30, 2003	\$768,476	(\$7,312)	\$10,301	\$771,465
Interpretation No. 6 Adjustment	5,683	0	6,650	12,333
Fund Reclassification	0	0	(19,250)	(19,250)
Adjusted Fund Balances, June 30, 2003	\$774,159	(\$7,312)	(\$2,299)	764,548

GASB 34 Adjustments:

Deferred Assets:

Intergovernmental Receivables 3,621

Delinquent Property Taxes 38,921

Capital Assets 779,246

Intergovernmental Payables (32,108)

Long Term Liabilities:

Compensated Absences Payable (225,169)

Capital Leases Payable (213,225)

Adjusted Governmental Activities Net Assets, June 30, 2003 \$1,115,834

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

	Food Service Enterprise Fund
Fund Equity, June 30, 2003	(\$24,717)
Fund Reclassification	24,717
Restated Fund Equity, June 30, 2003	\$0

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the Food Service, Disadvantaged Pupil Impact Aid, Student Intervention, Title VI-B, and Title II-A Special Revenue Funds had deficit fund balances of \$13,968, \$189, \$16, \$41 and \$27, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses 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).

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$379,404)
Adjustments:	
Revenue Accruals	3,704
Expenditure Accruals	89,215
Advances	(7,165)
Encumbrances	<u>(30,225)</u>
Budget Basis	<u><u>(\$323,875)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 of Education 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 accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the School District’s deposits was \$473,652 and the bank balance was \$552,080. Of the bank balance, \$100,000 was covered by federal depository insurance and \$452,080 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution’s trust department in the School District’s name and all State 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.

Investments: The School District’s investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District’s name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty’s trust department or agent in the School District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District’s name. The School District’s investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Unclassified	Carrying and Fair Value
Repurchase Agreements	\$26,000	\$0	\$26,000
STAROhio	0	332,994	332,994
Totals	\$26,000	\$332,994	\$358,994

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, “*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting.*” A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$832,646	\$0
Investments:		
Repurchase Agreements	(26,000)	26,000
STAROhio	(332,994)	332,994
GASB Statement No. 3	\$473,652	\$358,994

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District 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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 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, 2004, 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 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$54,577 in the General Fund and \$12,279 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$58,281 in the General Fund and \$4,341 in the Permanent Improvement Capital Projects Fund.

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

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$39,272,180	83.86%	\$39,411,630	84.36%
Public Utility	3,159,810	6.75%	3,121,810	6.68%
Tangible Personal Property	4,397,050	9.39%	4,185,696	8.96%
Total Assessed Value	<u>\$46,829,040</u>	<u>100.00%</u>	<u>\$46,719,136</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$35.59		\$37.59	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, intergovernmental grants, and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 – RECEIVABLES (continued)

	Amounts
Governmental Activities:	
Title I	\$12,232
Food Service	8,210
Title VI-B	3,443
Title V	1,050
Student Intervention	771
Total Intergovernmental Receivables	\$25,706

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03**	Additions	Deductions	Balance at 6/30/04
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$36,900	\$0	\$0	\$36,900
Capital Assets Being Depreciated:				
Land Improvements	2,964	51,840	0	54,804
Buildings and Improvements	1,907,517	428,217	0	2,335,734
Furniture, Fixtures and Equipment	557,040	245,530	(14,054)	788,516
Textbooks	338,923	0	0	338,923
Vehicles	310,797	6,800	0	317,597
Totals at Historical Cost	3,117,241	732,387	(14,054)	3,835,574
Less Accumulated Depreciation:				
Land Improvements	(74)	(1,767)	0	(1,841)
Buildings and Improvements	(1,345,064)	(39,372)	0	(1,384,436)
Furniture, Fixtures and Equipment	(434,045)	(61,548)	14,054	(481,539)
Textbooks	(338,923)	0	0	(338,923)
Vehicles	(256,789)	(7,824)	0	(264,613)
Total Accumulated Depreciation	(2,374,895)	(110,511) *	14,054	(2,471,352)
Total Capital Assets Being Depreciated, Net	742,346	621,876	0	1,364,222
Governmental Activities Capital Assets, Net	\$779,246	\$621,876	\$0	\$1,401,122

** As restated – see note 3

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$71,579
Special	4,764
Vocational	977
Support Services:	
Pupils	3,061
Instructional Staff	4,542
Administration	2,328
Fiscal	1,673
Operation and Maintenance of Plant	4,581
Pupil Transportation	11,550
Central	532
Operation of Non-Instructional Services	2,288
Extracurricular Activities	2,636
Total Depreciation Expense	<u><u>\$110,511</u></u>

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Neil Coleman Insurance for property, fleet, and inland marine coverage. The types and amounts of coverage follow:

Building and Contents replacement cost (\$1,000 deductible)	\$14,881,282
Inland Marine Coverage (\$1,000 deductible)	13,863,915
Boiler and Machinery	No Limit
Crime Insurance (\$1,000 deductible)	50,000
Automobile Liability - Comprehensive (\$50 deductible)	1,000,000
Automobile Liability - Collision (\$100 deductible)	1,000,000

During fiscal year 2004, the School District participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 20).

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:

Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense	\$1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expense Limit - Per Person / Accident	10,000
Medical Expense Limit - Each Accident	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000

Employer's Liability:

Bodily Injury by Accident - Each Accident	1,000,000
Bodily Injury by Disease - Endorsement Limit	1,000,000
Bodily Injury by Disease - Each Employee	1,000,000

Employee Benefits Liability:

Per Claim	1,000,000
Aggregate Limit	3,000,000

Educational Legal Liability (\$5,000 deductible):

Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	2,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Aggregate Limit	2,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	1,000,000

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

The School District is a member of the Scioto County Schools Council of Governments, a public entity shared risk pool (Note 19), offering medical and dental insurance to the employees of participating school districts. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the School District shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. All claims and expenses shall be paid from the funds of the Council.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$53,224, \$45,501, and \$27,903, respectively; 50.96 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$26,101 represents the unpaid contribution for fiscal year 2004.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

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

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, 2004, 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 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002, were \$262,775, \$231,941, and \$163,613, respectively; 81.69 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$133 made by the School District and \$127 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, 2004, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$20,213 for fiscal year 2004.

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

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

NOTE 12 - 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$37,571.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 35 - 55 days, depending on years of service.

B. Life Insurance

The School District provides life insurance to most employees through SunLife.

C. Deferred Compensation

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District entered into capitalized leases for exercise equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “*Accounting for Leases*,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. 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 reported as program/function expenditures on the budgetary basis.

Capital assets acquired by lease were initially capitalized in the amount of \$218,901 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$70,907 and were paid from the General Fund.

The assets acquired through capital leases as of June 30, 2004, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Exercise Equipment	\$218,901	(\$21,890)	\$197,011

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

	Fiscal Year Ending June 30,	Total Payments
	2005	\$76,612
	2006	70,237
Total		146,849
Less: Amount Representing Interest		(4,531)
Present Value of Net Minimum Lease Payments		\$142,318

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
<u>Governmental Activities:</u>					
2003 Permanent Improvement Levy					
Anticipation Notes - 3.31%	\$0	\$525,000	\$0	\$525,000	\$105,000
Capital Leases	213,225	0	70,907	142,318	73,179
Compensated Absences	225,169	97,211	17,135	305,245	38,281
Total Governmental Activities					
Long-Term Obligations	<u>\$438,394</u>	<u>\$622,211</u>	<u>\$88,042</u>	<u>\$972,563</u>	<u>\$216,460</u>

On July 30, 2003, the School District issued Permanent Improvement Levy Anticipation Notes in the amount of \$525,000 for the purpose of improving facilities within the School District. The notes were issued for a five year period with final maturity on July 30, 2008. The notes will be retired from the Permanent Improvement Capital Projects Fund.

As of June 30, 2004, all of the note proceeds had been spent toward the project.

Capital leases will be paid from the General Fund. Compensated absences will be paid from the General Fund and the Food Service, Summer Intervention, and Title I Special Revenue Funds.

The School District's overall legal debt margin was \$4,204,722 with an unvoted debt margin of \$46,719 at June 30, 2004.

Principal and interest requirements to retire the Permanent Improvement Levy Anticipation Notes outstanding at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$105,000	\$17,378	\$122,378
2006	105,000	13,902	118,902
2007	105,000	10,426	115,426
2008	105,000	6,951	111,951
2009	105,000	3,476	108,476
Total	<u>\$525,000</u>	<u>\$52,133</u>	<u>\$577,133</u>

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 – INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

		Receivable
		General
Payable	All Other	
	Nonmajor Funds	\$11,653

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

B. Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

		Transfers From
		General
Transfers To	All Other	
	Nonmajor Funds	\$28,060

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 17 - CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had the following contractual purchase commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance 6/30/04</u>
J & H Reinforcing	\$150,000	\$120,894	\$29,106
Little's Septic Service	56,563	53,771	2,792
Mechanical Construction	35,875	31,623	4,252
David Dixon, Inc.	24,085	0	24,085
Triad Architects	5,500	4,580	920

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$66,965 for services provided during the 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. Coalition of Rural and Appalachian Schools

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. Pilasco-Ross Special Education Regional Resource Center

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

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

NOTE 19 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council of Governments

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

NOTE 20 - INSURANCE PURCHASING POOLS

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

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

B. Ohio School Plan

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

NOTE 21 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For the fiscal year ended June 30, 2004, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies refunded from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 - SET-ASIDE CALCULATIONS (continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0	\$17,753
Current Year Set-aside Requirement	78,450	78,450	0
Current Year Offsets	0	(78,450)	0
Qualifying Disbursements	<u>(78,450)</u>	<u>0</u>	<u>(17,753)</u>
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

NOTE 22 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

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

NOTE 23 - 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, 2004.

CLAY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 23 – CONTINGENCIES (continued)

B. Litigation

The School District is not party to any legal proceedings.

NOTE 24 – SUBSEQUENT EVENT

During fiscal year 2003, the School District entered into an agreement with the National School Fitness Foundation, “a non-profit corporation organized to, among other things, educate the general public relative to physical fitness.” The agreement stipulated that the School District would enter into a lease agreement with a local bank to obtain monies to purchase exercise equipment from the Foundation. The School District then had to set up an exercise program for participating students and collect information on each student’s progress during the program. The information collected would then be submitted to the Foundation. In return, the Foundation would reimburse the School District for each lease payment made to the local bank for the life of the lease. At the end of the lease agreement, the exercise equipment would then become property of the School District.

Based upon these terms, during fiscal year 2003, the School District entered into a three-year lease agreement with National City Bank in the amount of \$218,901 to finance the fitness equipment. However, in June 2004, the National School Fitness Foundation filed for Chapter 11 reorganization. On July 1, 2004, the United States Bankruptcy Court converted the case to a Chapter 13 dissolution proceeding. At that time, the National School Fitness Foundation ceased reimbursements to the School District, leaving a balance of \$160,251 left to be reimbursed. Currently, the case is under investigation within the Ohio Attorney General’s office.

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Ohio Society of Certified Public Accountants

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

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

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 the Clay Local School District, Scioto County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we have reported to the District's management in a separate letter dated March 17, 2005.

Clay Local School District
Scioto County
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

March 17, 2005



**Auditor of State
Betty Montgomery**

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CLAY LOCAL SCHOOL DISTRICT

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 16, 2005**