



**Auditor of State  
Betty Montgomery**



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

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

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Food Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

May 3, 2005

**Lynchburg-Clay Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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As management of the Lynchburg Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the 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 financial statements to enhance their understanding of the School District's performance.

**Financial Highlights**

The assets of the Lynchburg Clay Local School District exceeded its liabilities at June 30, 2004 by \$27,400,978. Of this amount, \$4,192,196 may be used to meet the School District's ongoing financial obligations. The remaining amount represents capital assets net of related debt and net asset amounts restricted for specific purposes.

The School District's net assets decreased by \$124,696 during this year's operations.

General revenues accounted for \$8,389,621 or 83 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$1,738,935 or 17 percent of total revenues of \$10,128,556.

The School District had \$10,253,252 in expenses related to governmental activities; only \$1,738,935 of these expenses were offset by program specific charges for services, grants or contributions and interest.

**Using the Basic Financial Statements**

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

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

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

One of the most important questions asked about the School District is “How did we do financially during 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 8. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

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

**Proprietary Fund** – Proprietary funds use the same basis of accounting as business-type activities. The Internal Service Fund is used to report activities that provide services to the School District’s other funds and departments.

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**Fiduciary Funds** - The School District's only fiduciary fund is 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  
Governmental Activities

	2004	Restated 2003
<b>Assets</b>		
Current and Other Assets	\$8,605,353	\$7,746,990
Capital Assets	24,182,534	24,798,959
Total Assets	32,787,887	32,545,949
<b>Liabilities</b>		
Long-Term Liabilities	2,450,419	2,357,273
Other Liabilities	2,936,490	2,662,972
Total Liabilities	5,386,909	5,020,245
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	22,189,446	22,721,923
Restricted	1,019,336	1,131,978
Unrestricted	4,192,196	3,671,773
Total Net Assets	\$27,400,978	\$27,525,674

Table 1 is a comparison of governmental activities as of June 30, 2004 and 2003. Total net assets decreased due to a decrease in invested in capital assets, net of related debt. Acquisitions in the amount of \$239,699 were not enough to cover depreciation of \$856,124. Capital assets are used to provide services to students and do not represent assets that may be used for future spending. Restricted net assets decreased due to expenses exceeding revenues and increases in accrued liabilities. Unrestricted net assets increased due to increased revenues from property taxes and intergovernmental sources over 2003 amounts.

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

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

(Table 2)  
Change in Net Assets

	Governmental Activities	
	2004	2003
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$706,711	\$304,194
Operating Grants and Contributions	987,774	1,046,631
Capital Grants and Contributions	44,450	23,700
Total Program Revenues	1,738,935	1,374,525
General Revenues:		
Property Taxes	1,856,779	1,745,926
Grants and Entitlements not Restricted to Specific Programs	6,448,931	6,180,360
Investment Earnings	17,462	97,149
Gain on Sale of Capital Assets	0	27,000
Rent	0	12,050
Miscellaneous	66,449	64,330
Total General Revenues	8,389,621	8,126,815
Total Revenues	\$10,128,556	\$9,501,340

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(Table 2)  
Change in Net Assets  
(continued)

	Governmental Activities	
	2004	2003
<b>Program Expenses</b>		
Instruction		
Regular	\$4,857,861	\$4,165,402
Special	816,910	633,421
Vocational	213,192	206,247
Adult/Continuing	0	1,410
Support Services		
Pupils	294,622	222,261
Instructional Staff	541,584	547,413
Board of Education	11,545	12,119
Administration	882,094	983,613
Fiscal	301,352	296,593
Business	30,995	10,562
Operation and Maintenance of Plant	938,685	974,846
Pupil Transportation	697,844	690,345
Central	12,575	14,143
Operation of Non-Instructional Services		
Food Services	444,526	486,682
Other	2,431	7,565
Extracurricular Activities	146,318	128,094
Interest and Fiscal Charges	60,718	112,807
Total Expenses	<u>10,253,252</u>	<u>9,493,523</u>
Increase (Decrease) in Net Assets	<u>(\$124,696)</u>	<u>\$7,817</u>

Program revenues related to charges for services increased by \$402,517. This was due mainly to a change in the way the School District records revenues received for open enrollment tuition. In prior years, these monies were recorded as a net amount, with revenues for incoming tuition netted against expenses for outgoing tuition, as reported on the State foundation settlements. However, in the current year, the Ohio Department of Education began reporting these amounts separately on the foundation settlements, and therefore, the School District began reporting gross amounts for open enrollment revenues and expenses. In addition, expenses related to regular instruction increased by \$690,810. Approximately 8 percent of this 17 percent increase is related to the change in reporting of open enrollment, as mentioned above. Another 2.75 percent of the increase was related to an increase in salaries for the fiscal year.

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**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and 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 cost 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	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$5,887,963	\$4,741,317	\$5,006,480	\$4,240,090
Support Services	3,711,296	3,527,643	3,751,895	3,556,054
Operation of Non-				
Instructional Services	446,957	100,635	494,247	164,495
Extracurricular Activities	146,318	84,001	128,094	45,252
Interest and Fiscal Charges	60,718	60,718	112,807	112,807
<b>Total Expenses</b>	<b>\$10,253,252</b>	<b>\$8,514,314</b>	<b>\$9,493,523</b>	<b>\$8,118,698</b>

**The School District's Funds**

Information about the School District's major funds start on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,136,084 and expenditures of \$9,703,950. The net change in fund balance for the year was most significant in the General Fund, an increase of \$621,054. This was due to an increase in State foundation monies and tuition and fees. Part of these increased revenues were due to increased student enrollment for the year. Retirement of high level staff along with a 2.5 percent increase in salaries allowed for a modest increase in expenditures over 2003.

The Debt Service Fund saw an increase in fund balance of \$144,845 due to property tax receipts for the year exceeding the annual debt payments.

The Food Service Fund had a decrease in fund balance of \$29,712 due to expenditures exceeding revenues.

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**General Fund - Budget Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 2004 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

The School District's ending unobligated cash balance was \$1,624,805 above the final budgeted amount in the General Fund.

For the General Fund, budget basis revenue was \$8,749,990 with original budget estimates of \$9,079,579, a difference of 4 percent.

**Capital Assets and Debt Administration**

*Capital Assets*

The Lynchburg Clay Local School District's investment in capital assets as of June 30, 2004 was \$24,182,534. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and books and educational media. 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	\$419,668	\$419,668
Construction in Progress	5,800	5,800
Land Improvements	1,706,213	1,698,028
Buildings and Improvements	20,483,764	20,891,784
Furniture and Equipment	1,142,145	1,319,629
Vehicles	370,712	343,722
Books and Educational Media	54,232	120,328
Totals	\$24,182,534	\$24,798,959

Net capital assets decreased \$616,425 from the prior year, due mainly to increases in accumulated depreciation.

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

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Unaudited*

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**Debt**

At June 30, 2004 the School District had \$1,960,000 in bonds outstanding, \$75,000 due within one year. Table 5 summarizes bonds outstanding:

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

	2004	2003
General Obligation Bonds:		
1998 - School Improvement Bonds	\$1,960,000	\$2,035,000

**School Improvement Bonds 1998**

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

The School District's voted legal debt margin was \$6,099,330 with an unvoted debt margin of \$81,931 at June 30, 2004.

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

**District Challenges for the Future**

The Lynchburg Clay Local School District's management forecasts that the financial status will continue to be healthy and stable for the next four years. While the School District continues to maintain a healthy cash balance, our projection shows our expenditures will exceed our revenue in fiscal year 2008. Therefore, certain measures are being taken to make sure this does not continue for an extended period of time.

Lynchburg Clay Local School District is heavily dependent on state funding; approximately 71% is received thru the state foundation program.

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

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Unaudited*

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Projection of student enrollment is difficult to forecast. During the last several years, School District enrollment has shown a slight increase. Housing continues to increase in the School District. However, a significant increase in enrollment during the next several years is not expected, because management believes that the residents of the new homes do not have a significant number of children who are of school age.

The slow State and national economy is also causing financial difficulty for the Lynchburg Clay Local School District and schools throughout the state and the nation. While the Governor of Ohio contemplates the next biennium budget, he must contend with poor economic conditions in our State. Unless Ohio's economy takes a positive turn, the funding for Ohio's public schools may not be sufficient to finance educational programs necessary for our students. Although the State has made budget cuts to other entities, the public schools have been exempt to this time. This however may not be possible in the future.

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

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

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

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

*Lynchburg Clay Local School District*

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,296,957
Accrued Interest Receivable	16,346
Accounts Receivable	8,113
Prepaid Items	26,394
Materials and Supplies Inventory	9,181
Intergovernmental Receivable	184,937
Taxes Receivable	2,039,972
Cash and Cash Equivalents With Fiscal Agents	23,453
Capital Assets:	
Land and Construction in Progress	425,468
Depreciable Capital Assets, Net	<u>23,757,066</u>
<i>Total Assets</i>	<u>32,787,887</u>
<b>Liabilities</b>	
Accounts Payable	11,352
Accrued Wages and Benefits	725,994
Intergovernmental Payable	213,521
Deferred Revenue	1,838,297
Matured Compensated Absences Payable	30,408
Accrued Interest Payable	8,233
Claims Payable	108,685
Long-Term Liabilities:	
Due Within One Year	107,579
Due in More Than One Year	<u>2,342,840</u>
<i>Total Liabilities</i>	<u>5,386,909</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	22,189,446
Restricted for:	
Capital Projects	13,419
Debt Service	686,648
Set Asides	30,409
Other Purposes	288,860
Unrestricted	<u>4,192,196</u>
<i>Total Net Assets</i>	<u><u>\$27,400,978</u></u>

See accompanying notes to the basic financial statements

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**Lynchburg Clay Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004

	Program Revenues	
	Charges for Services and Sales	Operating Grants Contributions and Interest
Expenses		
<b><u>Governmental Activities:</u></b>		
Instruction:		
Regular	\$4,857,861	\$387,585
Special	816,910	0
Vocational	213,192	2,135
Support Services:		
Pupils	294,622	0
Instructional Staff	541,584	0
Board of Education	11,545	0
Administration	882,094	3,118
Fiscal	301,352	0
Business	30,995	0
Operation and Maintenance of Plant	938,685	2,991
Pupil Transportation	697,844	0
Central	12,575	0
Operation of Non-Instructional Services:		
Food Services	444,526	249,157
Other	2,431	0
Extracurricular Activities	146,318	61,725
Interest and Fiscal Charges	60,718	0
<b>Total Governmental Activities</b>	<b><u>\$10,253,252</u></b>	<b><u>\$706,711</u></b>

General Revenues:  
Property Taxes Levied for:  
    General Purposes  
    Debt Service  
    Capital Outlay  
Grants and Entitlements not  
    Restricted to Specific Programs  
Investment Earnings  
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

<u>Capital Grants and Contributions</u>	<u>Net(Expense) Revenue and Changes in Net Assets</u>	<u>Governmental Activities</u>
\$29,113	(\$4,310,602)	
0	(293,208)	
0	(137,507)	
1,392	(263,546)	
0	(443,029)	
0	(11,545)	
0	(877,268)	
0	(300,509)	
0	(30,995)	
13,945	(919,330)	
0	(677,028)	
0	(4,393)	
0	(98,207)	
0	(2,431)	
0	(84,001)	
0	(60,718)	
<u>\$44,450</u>	<u>(8,514,317)</u>	
		1,526,751
		293,245
		36,783
		6,448,931
		17,462
		<u>66,449</u>
		<u>8,389,621</u>
		(124,696)
		<u>27,525,674</u>
		<u>\$27,400,978</u>

**Lynchburg Clay Local School District**

Balance Sheet

Governmental Funds

June 30, 2004

	General Fund	Debt Service Fund	Food Service Fund	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$4,923,576	\$661,495	\$105	\$357,066	\$5,942,242
Materials and Supplies Inventory	0	0	9,181	0	9,181
Accrued Interest Receivable	16,165	0	0	0	16,165
Accounts Receivable	8,113	0	0	0	8,113
Interfund Receivable	165,550	0	0	0	165,550
Intergovernmental Receivable	0	0	18,808	123,058	141,866
Prepaid Items	25,614	0	780	0	26,394
Property Taxes Receivable	1,717,094	282,291	0	40,587	2,039,972
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	93,565	0	0	0	93,565
<b>Total Assets</b>	<b>\$6,949,677</b>	<b>\$943,786</b>	<b>\$28,874</b>	<b>\$520,711</b>	<b>\$8,443,048</b>
<b>Liabilities</b>					
Accounts Payable	\$9,611	\$0	\$0	\$1,741	\$11,352
Accrued Wages and Benefits	669,705	0	25,840	30,449	725,994
Matured Compensated Absences Payable	29,466	0	942	0	30,408
Interfund Payable	0	0	141,000	24,550	165,550
Intergovernmental Payable	127,950	0	2,565	3,711	134,226
Deferred Revenue	1,601,440	258,268	0	136,802	1,996,510
<b>Total Liabilities</b>	<b>2,438,172</b>	<b>258,268</b>	<b>170,347</b>	<b>197,253</b>	<b>3,064,040</b>
<b>Fund Balances</b>					
Reserved for Encumbrances	200,039	346	1,446	92,781	294,612
Reserved for Property Taxes	122,828	24,023	0	2,984	149,835
Reserved for Budget Stabilization	30,409	0	0	0	30,409
Reserved for Bus Purchases	63,156	0	0	0	63,156
Unreserved:					
Undesignated, Reported in:					
General Fund	4,095,073	0	0	0	4,095,073
Special Revenue Funds (Deficit)	0	0	(142,919)	216,149	73,230
Debt Service Fund	0	661,149	0	0	661,149
Capital Projects Funds	0	0	0	11,544	11,544
<b>Total Fund Balances (Deficit)</b>	<b>4,511,505</b>	<b>685,518</b>	<b>(141,473)</b>	<b>323,458</b>	<b>5,379,008</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,949,677</b>	<b>\$943,786</b>	<b>\$28,874</b>	<b>\$520,711</b>	<b>\$8,443,048</b>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of the Change in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2004

**Net Change in Fund Balances - Total Governmental Funds** \$436,634

***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	239,699	
Depreciation expense	<u>(856,124)</u>	
Excess of capital outlay under depreciation expense		(616,425)

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	(4,298)	
Intergovernmental	<u>(6,823)</u>	
		(11,121)

The internal service fund used by management to charge the cost of insurance to individual funds is reported in the entity wide statement of activities 115,736

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability. (4,500)

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

Bond payments	75,000	
Capital lease payments	<u>13,448</u>	
Total long-term debt repayment		88,448

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	(177,094)	
Decrease in accrued interest payable	42,812	
Decrease in intergovernmental payable	<u>814</u>	
Total (increase)/decrease		<u>(133,468)</u>

**Change in Net Assets of Governmental Activities** (\$124,696)

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balance:  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	General Fund	Debt Service Fund	Food Service Fund	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$1,530,173	\$293,998	\$0	\$36,906	\$1,861,077
Intergovernmental	6,759,376	34,770	97,162	577,838	7,469,146
Interest	13,869	0	0	0	13,869
Tuition and Fees	370,700	0	0	3,307	374,007
Rent	8,250	0	0	0	8,250
Extracurricular Activities	0	0	0	75,297	75,297
Gifts and Donations	713	0	0	18,119	18,832
Customer Sales and Services	0	0	249,157	0	249,157
Miscellaneous	40,425	0	513	25,511	66,449
<i>Total Revenues</i>	<u>8,723,506</u>	<u>328,768</u>	<u>346,832</u>	<u>736,978</u>	<u>10,136,084</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	3,938,930	0	0	420,879	4,359,809
Special	502,829	0	0	272,382	775,211
Vocational	186,743	0	0	0	186,743
Support Services:					
Pupils	248,737	0	0	38,469	287,206
Instructional Staff	382,315	0	0	107,459	489,774
Board of Education	11,633	0	0	0	11,633
Administration	790,941	0	0	9,208	800,149
Fiscal	286,224	8,512	0	2,344	297,080
Business	30,995	0	0	0	30,995
Operation and Maintenance of Plant	886,277	0	4,555	121,109	1,011,941
Pupil Transportation	721,663	0	0	1,371	723,034
Central	499	0	0	12,585	13,084
Operation of Non-Instructional Services:					
Food Services	0	0	371,989	0	371,989
Other	2,431	0	0	0	2,431
Extracurricular Activities	92,012	0	0	54,125	146,137
Capital Outlay	4,756	0	0	0	4,756
Debt Service					
Principal Retirement	13,448	75,000	0	0	88,448
Interest and Fiscal Charges	3,119	100,411	0	0	103,530
<i>Total Expenditures</i>	<u>8,103,552</u>	<u>183,923</u>	<u>376,544</u>	<u>1,039,931</u>	<u>9,703,950</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>619,954</u>	<u>144,845</u>	<u>(29,712)</u>	<u>(302,953)</u>	<u>432,134</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	0	0	31,483	31,483
Inception of Capital Lease	4,500	0	0	0	4,500
Transfers Out	(3,400)	0	0	(28,083)	(31,483)
<i>Total Other Financing Sources (Uses)</i>	<u>1,100</u>	<u>0</u>	<u>0</u>	<u>3,400</u>	<u>4,500</u>
<i>Net Change in Fund Balances</i>	621,054	144,845	(29,712)	(299,553)	436,634
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>3,890,451</u>	<u>540,673</u>	<u>(111,761)</u>	<u>623,011</u>	<u>4,942,374</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>\$4,511,505</u></u>	<u><u>\$685,518</u></u>	<u><u>(\$141,473)</u></u>	<u><u>\$323,458</u></u>	<u><u>\$5,379,008</u></u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004

**Total Governmental Fund Balances** \$5,379,008

***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	419,668	
Construction in Progress	5,800	
Other Capital Assets	31,559,152	
Accumulated depreciation	<u>(7,802,086)</u>	
Total capital assets		24,182,534

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	59,014	
Intergovernmental	<u>99,199</u>	
		158,213

The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 219,170

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds. (79,295)

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

Bonds payable	(1,960,000)	
Accrued interest on bonds	(8,233)	
Capital leases	(33,088)	
Compensated absences	<u>(457,331)</u>	
		<u>(2,458,652)</u>

**Net Assets of Governmental Activities** \$27,400,978

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property and Other Local Taxes	\$1,366,155	\$1,478,884	\$1,512,669	\$33,785
Intergovernmental	7,211,690	6,775,046	6,754,661	(20,385)
Interest	77,918	73,200	74,565	1,365
Tuition and Fees	385,757	362,400	370,670	8,270
Rent	160	150	250	100
Gifts and Donations	0	0	713	713
Miscellaneous	37,900	35,605	36,462	857
<i>Total Revenues</i>	<u>9,079,579</u>	<u>8,725,285</u>	<u>8,749,990</u>	<u>24,705</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,073,514	5,030,108	3,993,979	1,036,129
Special	529,438	524,909	502,699	22,210
Vocational	226,433	224,496	198,779	25,717
Adult/Continuing	206	204	0	204
Support Services:				
Pupils	380,595	377,339	261,410	115,929
Instructional Staff	423,821	420,195	391,502	28,693
Board of Education	13,454	13,339	9,964	3,375
Administration	995,510	986,993	809,289	177,704
Fiscal	344,194	341,249	310,458	30,791
Business	57,344	56,853	39,189	17,664
Operation and Maintenance of Plant	1,036,976	1,028,104	971,794	56,310
Pupil Transportation	785,761	779,039	741,965	37,074
Central	14,925	14,797	2,103	12,694
Operation of Non-Instructional Services				
Food Services	0	0	0	0
Other	7,065	7,005	2,456	4,549
Extracurricular Activities	98,688	97,844	91,827	6,017
Capital Outlay	303	300	256	44
<i>Total Expenditures</i>	<u>9,988,226</u>	<u>9,902,774</u>	<u>8,327,670</u>	<u>1,575,104</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(908,647)</u>	<u>(1,177,489)</u>	<u>422,320</u>	<u>1,599,809</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	2,100	2,100	8,595	6,495
Advances In	69,000	69,000	69,441	441
Transfers Out	(21,100)	(21,100)	(3,400)	17,700
Refund of Prior Year Receipts	(1,200)	(1,200)	(1,110)	90
Advances Out	(75,820)	(75,820)	(75,550)	270
<i>Total Other Financing Sources (Uses)</i>	<u>(27,020)</u>	<u>(27,020)</u>	<u>(2,024)</u>	<u>24,996</u>
<i>Net Change in Fund Balance</i>	<u>(935,667)</u>	<u>(1,204,509)</u>	<u>420,296</u>	<u>1,624,805</u>
<i>Fund Balance Beginning of Year</i>	<u>4,271,753</u>	<u>4,271,753</u>	<u>4,271,753</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>166,650</u>	<u>166,650</u>	<u>166,650</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$3,502,736</u>	<u>\$3,233,894</u>	<u>\$4,858,699</u>	<u>\$1,624,805</u>

See accompanying notes to the basic financial statement

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Food Service Fund  
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$82,200	\$82,200	\$86,637	\$4,437
Customer Sales and Services	217,455	217,455	249,157	31,702
Miscellaneous	2,160	2,160	513	(1,647)
<i>Total Revenues</i>	<u>301,815</u>	<u>301,815</u>	<u>336,307</u>	<u>34,492</u>
<b>Expenditures</b>				
Current:				
Operation and Maintenance of Plant	5,306	5,525	4,695	830
Operation of Non-Instructional Services				
Food Services	394,614	410,869	375,171	35,698
<i>Total Expenditures</i>	<u>399,920</u>	<u>416,394</u>	<u>379,866</u>	<u>36,528</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(98,105)</u>	<u>(114,579)</u>	<u>(43,559)</u>	<u>71,020</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	200,000	200,000	0	(200,000)
Advances In	100,000	100,000	41,000	(59,000)
<i>Total Other Financing Sources (Uses)</i>	<u>300,000</u>	<u>300,000</u>	<u>41,000</u>	<u>(259,000)</u>
<i>Net Change in Fund Balance</i>	201,895	185,421	(2,559)	(187,980)
<i>Fund Balance Beginning of Year</i>	<u>1,219</u>	<u>1,219</u>	<u>1,219</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$203,114</u>	<u>\$186,640</u>	<u>(\$1,340)</u>	<u>(\$187,980)</u>

See accompanying notes to the basic financial statements

***Lynchburg Clay Local School District***

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

	<u>Self-Insurance</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$261,150
Cash and Cash Equivalents with Fiscal Agent	23,453
Receivables:	
Accrued Interest	181
Intergovernmental	<u>43,071</u>
<i>Total Assets</i>	327,855
<b><u>Liabilities</u></b>	
Claims Payable	<u>108,685</u>
<b><u>Net Assets</u></b>	
Unrestricted	<u><u>\$219,170</u></u>

See accompanying notes to the basic financial statements

*Lynchburg Clay Local School District*  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2004

	Self-Insurance
<b><u>Operating Revenues</u></b>	
Charges for Services	\$916,832
<b><u>Operating Expenses</u></b>	
Purchased Services	31,521
Claims	773,168
<i>Total Operating Expenses</i>	804,689
<i>Operating Income</i>	112,143
<b><u>Non-Operating Revenues</u></b>	
Interest	3,593
<i>Change in Net Assets</i>	115,736
<i>Net Assets at Beginning of Year</i>	103,434
<i>Net Assets at End of Year</i>	\$219,170

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Cash Flows  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2004

	<u>Self-Insurance</u>
<b><i>Increase in Cash and Cash Equivalents</i></b>	
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Quasi-External Transactions with Other Funds	\$916,832
Cash Payments to Suppliers for Goods and Services	(31,521)
Cash Payments for Claims	<u>(778,393)</u>
Net Cash Provided by Operating Activities	<u>106,918</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Repayment of Loans from Other Governments	(130,980)
Short-Term Loans to Other Governments	<u>(43,071)</u>
Net Cash Used for Noncapital Financing Activities	<u>(174,051)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest	<u>3,555</u>
Decrease in Cash and Cash Equivalents	(63,578)
Cash and Cash Equivalents at Beginning of Year	<u>348,181</u>
Cash and Cash Equivalents at End of Year	<u><u>\$284,603</u></u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$112,143
<b><u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u></b>	
Decrease in Claims Payable	<u>(5,225)</u>
Net Cash Provided by Operating Activities	<u><u>\$106,918</u></u>

See accompanying notes to the basic financial statements

*Lynchburg Clay Local School District*  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Fund  
June 30, 2004

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,428</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$16,428</u>

See accompanying notes to the basic financial statements

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

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 113 square miles. It is located in Highland, Clinton and Brown Counties, and includes all of the Villages of Lynchburg, Buford, and Dodson and portions of Hamer, Union and White Oak Townships. It is staffed by 57 non-certificated employees, 85 certificated personnel and 7 administrative employees who provide services to 1,301 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

**Reporting Entity**

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

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

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

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

The financial statements of the Lynchburg Clay Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation**

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

**Government-wide Financial Statements**

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

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

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

Fund Financial Statements

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

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the 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 three categories: governmental, proprietary and fiduciary.

Governmental Funds

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

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

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

Proprietary Funds

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

Internal Service Fund - The Internal Service Fund is used to account for the medical, surgical and dental benefits provided to employees.

Fiduciary Funds

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

**C. Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

**D. Basis of Accounting**

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

**Revenues-Exchange and Non-exchange Transactions**

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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 non-exchange transactions must also be available before it can be recognized.

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 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

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.

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

**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 at 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 as the final column of the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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

The appropriation resolution is subject to amendment by the Board throughout the 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.

**F. Cash and Cash Equivalents**

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

The School District participates in a claims servicing pool that pays employees health insurance claims on the School District’s behalf. The balance of the School District’s funds held by the claims administrator and the fiscal agent at June 30, 2004, is presented as “Cash and Cash Equivalents with Fiscal Agents” and represents deposits.

During fiscal year 2004, the School District’s investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio), Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and a repurchase agreement. Except for non-participating investment contracts, such as repurchase agreements, investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 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 \$13,869, which includes \$2,984 assigned from other School District funds.

For purposes of the Statement of Cash Flows, the internal service fund portion of equity in pooled cash and cash equivalents is considered to be a cash equivalent because the internal service fund portion of the pool can be accessed without prior notice or penalty.

**G. Inventory**

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

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

**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/expense is reported in the year in which services are consumed.

**I. Capital Assets**

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

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

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

**J. Interfund Balances**

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

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

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

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

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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. Bonds and capital leases 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 and after nonoperating revenues/expenses in the proprietary fund, and are eliminated on Statement of Activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

**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 imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash equivalents legally required to be set aside by the School District for budget stabilization and revenues restricted for bus purchases.

**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, budget stabilization and bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2004. The reserve for budget stabilization is money required by State statute to be set aside to protect against cyclical changes in revenues and expenditures.

**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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and federal and State grants restricted to expenditures for specified purposes.

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

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

**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 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2004, the School District has implemented *GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units.”* This Statement 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.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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

Net Change in Fund Balances		
	General	Food Service
GAAP Basis	\$621,054	(\$29,712)
Adjustments:		
Revenue Accruals	(16,874)	(10,525)
Net Decrease in Fair Market		
Value of Investments Fiscal Year 2004	59,909	0
Net Increase in Fair Market		
Value of Investments Fiscal Year 2003	(3,752)	0
Expenditure Accruals	(15,581)	(1,877)
Encumbrances	(209,647)	(1,445)
Advances	(6,109)	41,000
Unrecorded Cash	(8,704)	0
Budget Basis	\$420,296	(\$2,559)

**NOTE 5 - 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.

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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.

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 payment of 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 divisions (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.

**Lynchburg-Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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.

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 \$2,180,164 and the bank balance was \$2,388,306. Of the bank balance, \$200,000 was covered by federal depository insurance and \$2,288,306 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 the 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.

	<u>Category 2</u>	<u>Carrying and Fair Value</u>
STAROhio	\$0	\$151,162
Federal Home Loan Mortgage Corporation Bonds	1,192,213	1,192,213
Federal Home Loan Bank Bonds	1,224,378	1,224,378
Federal National Mortgage Association Bonds	1,375,907	1,375,907
Repurchase Agreement	213,014	213,014
Total Investments	<u>\$4,005,512</u>	<u>\$4,156,674</u>

**Lynchburg-Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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:

	Cash and Cash Equivalents/ Deposits	Investments
<i>Basic Financial Statements:</i>	\$6,336,838	\$0
Investments:		
STAROhio	(151,162)	151,162
Federal Home Loan Mortgage Corporation Bonds	(1,192,213)	1,192,213
Federal Home Loan Bank Bonds	(1,224,378)	1,224,378
Federal National Mortgage Association Bonds	(1,375,907)	1,375,907
Repurchase Agreement	(213,014)	213,014
<i>GASB Statement No. 3</i>	\$2,180,164	\$4,156,674

**NOTE 6 - 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 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.

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland, Clinton and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 \$122,828 in the General Fund, \$24,023 in the Debt Service Fund, and \$2,984 in the Classroom Facilities Nonmajor Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$105,324 in the General Fund, \$20,601 in the Debt Service Fund, and \$2,624 in the Classroom Facilities Nonmajor Special Revenue Fund.

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

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	\$71,766,973	90.28%	\$73,303,130	89.47%
Public Utility	3,606,832	4.54%	5,034,722	6.15%
Tangible Personal Property	4,119,299	5.18%	3,593,400	4.38%
Total Assessed Value	<u>\$79,493,104</u>	<u>100.00%</u>	<u>\$81,931,252</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$29.92		\$29.92	

**Lynchburg-Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, intergovernmental grants, interest, and interfund amounts. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Food Service - Federal Lunch Reimbursement	\$18,808
Title VI-B Grant	22,235
Title I Grant	75,033
Preschool Disability Grant	422
Title VI-R Grant	23,361
Miscellaneous Federal Grants	2,007
Total Intergovernmental Receivable	<u>\$141,866</u>

**NOTE 8 - CAPITAL ASSETS**

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

	<u>Ending Balance 6/30/2003 (Restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2004</u>
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$419,668	\$0	\$0	\$419,668
Construction in Progress	5,800	0	0	5,800
Total Capital Assets, Not Being Depreciated	<u>425,468</u>	<u>0</u>	<u>0</u>	<u>425,468</u>
Capital Assets Being Depreciated				
Land Improvements	2,061,492	114,215	0	2,175,707
Buildings and Improvements	25,173,720	0	0	25,173,720
Furniture and Equipment	2,474,851	18,284	(11,416)	2,481,719
Vehicles	1,036,791	103,650	(33,779)	1,106,662
Books and Educational Media	617,794	3,550	0	621,344
Total Capital Assets, Being Depreciated	<u>31,364,648</u>	<u>239,699</u>	<u>(45,195)</u>	<u>31,559,152</u>
Less Accumulated Depreciation:				
Land Improvements	(363,464)	(106,030)	0	(469,494)
Buildings and Improvements	(4,281,936)	(408,020)	0	(4,689,956)
Furniture and Equipment	(1,155,222)	(195,768)	11,416	(1,339,574)
Vehicles	(693,069)	(76,660)	33,779	(735,950)
Books and Educational Media	(497,466)	(69,646)	0	(567,112)
Total Accumulated Depreciation	<u>(6,991,157)</u>	<u>(856,124) *</u>	<u>45,195</u>	<u>(7,802,086)</u>
Total Capital Assets Being Depreciated, Net	<u>24,373,491</u>	<u>(616,425)</u>	<u>0</u>	<u>23,757,066</u>
Governmental Activities Capital Assets, Net	<u>\$24,798,959</u>	<u>(\$616,425)</u>	<u>\$0</u>	<u>\$24,182,534</u>

**Lynchburg-Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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

Instruction:	
Regular	\$453,081
Special	37,110
Vocational	26,680
Support Services:	
Pupils	9,128
Instructional Staff	60,063
Administration	56,807
Fiscal	732
Operation and Maintenance of Plant	50,323
Pupil Transportation	77,836
Central	4,635
Operation of Non-Instruction Services:	
Food Services	78,634
Extracurricular Activities	1,095
Total Depreciation Expense	\$856,124

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance for property insurance and with the Ohio School Plan for fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents - at replacement cost (\$1,000 deductible) (\$5,000 building, \$250 contents deductible)	\$26,247,409
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*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

**B. Ohio School Plan**

During fiscal year 2004, the School District, along with other school districts in Ohio, 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 16). The types and amounts of coverage provided by the Ohio School Plan are as follows:

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

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

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

**C. Workers' Compensation**

For fiscal year, 2004, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP. Each year the School District pays an enrollment fee to the GRP to cover costs of administering the program.

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

Medical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool, consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent, who in turn pays the claims on the School District's behalf. The claims liability of \$108,685 reported in the Internal Service Fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issue,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$63,809	\$842,750	\$792,649	\$113,910
2004	\$113,910	773,168	778,393	\$108,685

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 \$108,522, \$126,443, and \$72,186 respectively; 45.22 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**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](http://www.strsoh.org).

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 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.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$478,630, \$487,096, and \$320,050, respectively; 82.52 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 \$3,546 made by the plan members.

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

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, five Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care 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 \$36,818 for fiscal year 2004.

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

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 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 \$76,874.

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 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Special Termination Benefits**

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

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

**C. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to employees working twenty or more hours per week, with the exception of employees who have retired and returned to employment with the School District, through the Ohio Educational Employees Life Insurance Trust.

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

During fiscal year 2004, and in prior years, the School District entered into lease agreements for copiers. The terms of each agreement provide an option to purchase the equipment. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Basic Financial Statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$70,198, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$13,448.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Copiers	\$70,198
Less: Accumulated Depreciation	(33,770)
Total	\$36,428

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

Fiscal year Ending June 30,	Total Payments
2005	\$17,147
2006	15,201
2007	2,527
2008	1,159
2009	581
Total	36,615
Less: Amount Representing Interest	(3,527)
Present Value of Minimum Lease Payments	\$33,088

**Lynchburg-Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 14 - LONG-TERM OBLIGATIONS**

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

	Amounts Outstanding 6/30/03	Additions	Deductions	Amounts Outstanding 6/30/04	Amounts Due in One Year
<i>Governmental Activities:</i>					
1998 School Improvement					
Bonds, 3.8%	\$2,035,000	\$0	\$75,000	\$1,960,000	\$75,000
Capital Leases	42,036	4,500	13,448	33,088	14,944
Compensated Absences	280,237	232,496	55,402	457,331	17,635
Total Governmental Activities	<u>\$2,357,273</u>	<u>\$236,996</u>	<u>\$143,850</u>	<u>\$2,450,419</u>	<u>\$107,579</u>

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

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

The School District's overall legal debt margin was \$6,099,330 with an unvoted debt margin of \$81,931 at June 30, 2004.

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$75,000	\$97,168	\$172,168
2006	80,000	93,776	173,776
2007	85,000	90,125	175,125
2008	90,000	86,209	176,209
2009	90,000	82,136	172,136
2010-2014	525,000	333,830	858,830
2015-2019	690,000	171,141	861,141
2020-2021	325,000	16,375	341,375
Total	<u>\$1,960,000</u>	<u>\$970,760</u>	<u>\$2,930,760</u>

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS**

**A. South Cental Ohio Computer Association (SCOCA)**

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$50,453 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. Hopewell Special Education Regional Resource Center (Hopewell)**

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

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

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

**NOTE 16 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS**

**A. Ross County School Employees Insurance Consortium**

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

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

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

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

**C. Ohio School Plan**

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

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 fiscal year ending June 30, 2004, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies 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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	(\$259,699)	\$0	\$30,409
Current Year Set-aside Requirement	176,911	176,911	0
Current Year Offsets	0	(40,926)	0
Qualifying Disbursements	<u>(232,842)</u>	<u>(645,938)</u>	<u>0</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$315,630)</u>	<u>\$0</u>	<u>\$30,409</u>
Set-aside Reserve Balance as of June 30, 2004			<u>\$30,409</u>

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

**NOTE 18 – ACCOUNTABILITY**

At June 30, 2004, the Food Service, Title I and Preschool Disability Special Revenue Funds had deficit fund balances of \$141,473, \$43,161, and \$158, respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 19 - INTERFUND ACTIVITY**

**A. Interfund Receivables/Payables**

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

		Receivables
		General Fund
Payables	Food Service Fund	\$141,000
	All Other Nonmajor Governmental Funds	24,550
	Total	<u>\$165,550</u>

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

**B. Interfund Transfers**

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

Transfer To	Transfer From		
	General Fund	All Other Nonmajor Governmental Funds	Total
All Other Nonmajor Governmental Funds	<u>\$3,400</u>	<u>\$28,083</u>	<u>\$31,483</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds. Transfers between nonmajor governmental funds were made in accordance with the guidelines from the Classroom Facilities commission.

**NOTE 20 – 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 through 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.

*Lynchburg-Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 21 - 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.

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

**NOTE 22 – RESTATEMENT OF PRIOR YEAR NET ASSETS**

In fiscal year 2004, it was found that accumulated on depreciation on buildings was understated. This had the following effect on net assets as they were previously reported.

Governmental Net Assets, June 30, 2003	\$30,476,516
Error Correction	<u>(2,950,842)</u>
Governmental Net Assets, June 30, 2003	<u><u>\$27,525,674</u></u>

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$ -	\$ 32,618	\$ -	\$ 33,788
National School Lunch Program	LL-P4-04	10.555	82,418	-	82,418	-
	LL-P4-03					
Total Nutrition Cluster			82,418	32,618	82,418	33,788
<b>Total U.S. Department of Agriculture</b>			<b>82,418</b>	<b>32,618</b>	<b>82,418</b>	<b>33,788</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through Ohio Department of Education.</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI B) Handicapped	6B-SF-04	84.027	98,790	-	171,687	-
	6B-SF-03P					
	6B-SF-01					
Special Education Grants to States (Title VI B) Preschool	PG-S1-03P	84.173	3,100	-	3,718	-
<b>Total Special Education Cluster</b>			<b>101,890</b>	<b>-</b>	<b>175,405</b>	<b>-</b>
Comprehensive School Reform Demonstration	RF-S2-03	84.332	34,200	-	76,772	-
	RF-S1-02					
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04	84.010	182,684	-	157,490	-
	C1-S1-03					
Innovative Educational Program Strategies	C2-S1-04	84.298	7,628	-	4,512	-
	C2-S1-03					
Technology State Formula Grants	TJ-S1-04	84.318	3,051	-	763	-
Improving Teacher Quality State Grants	TR-S1-04	84.367	72,816	-	55,931	-
	TR-S1-03					
Drug-Free Schools Grant	DR-S1-04	84.186	9,779	-	8,359	-
	DR-S1-03					
School Renovation, IDEA and Technology	AT-S4-02	84.352	2,710		3,005	
<b>Total Department of Education</b>			<b>414,758</b>	<b>-</b>	<b>482,237</b>	<b>-</b>
<b>Totals</b>			<b>\$ 497,176</b>	<b>\$ 32,618</b>	<b>\$ 564,655</b>	<b>\$ 33,788</b>

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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

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



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated May 3, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated May 3, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

May 3, 2005



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Lynchburg-Clay Local School District, Highland County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Lynchburg-Clay Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 3, 2005.

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

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

**Betty Montgomery**  
Auditor of State

May 3, 2005

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

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

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

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

**FINDING NUMBER 2004-001**

**Material Citation/Reportable Condition**

Ohio Rev. Code, Section 149.351, provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42, Revised Code.

The District did not present 25% of the vouchers and related invoices and requisitions selected for testing. Management has indicated that the former treasurer stored school records in her home, which was destroyed by a fire in December 2004. Management believes that the missing invoices were destroyed in this fire. We were able to perform alternative auditing procedures for all invoices tested to meet audit objectives.

Due to the District's inability to present supporting documentation for audit, we could not verify that certain purchase requisitions were properly completed. Failure to issue a completed, authorized purchase requisition increases the likelihood of expenditures exceeding appropriations. We recommend that no payment be made for expenditures without a properly completed and authorized purchase requisition being attached to the voucher packet. Accountability for authorization should be assigned to an individual who is knowledgeable of the underlying expenditure, related budget, and where applicable, any grant requirements for determining activities allowed.

Due to the District's inability to present supporting documentation for audit, we could not verify that certain invoices were consistently marked by personnel that the goods or services had been received. Without indication that the receipt of goods was reviewed and is correct for payment, the shipment could be incorrect. To strengthen the controls over the purchasing process, the receiver should initial the applicable expenditure document to indicate to the Treasurer that the goods or services were proper and that the bill is proper to pay.

The lack of appropriate records retention policies and procedures increases the risk that errors or fraud could remain undetected, that District management's accountability for expenses will be compromised, and that the District will not be in compliance with Ohio law related to records retention. The lack of appropriate retention policies and procedures also decrease the District's ability to properly document the performance of adequate internal controls.

We recommend that all financial records of the District, and related supporting documentation should be maintained in a secure central location with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

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

**None.**

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Ohio Rev. Code, Section 5705.41(D), the availability of funds for certain expenditures was not properly certified.	No	Partially Corrected, issued as a management letter citation.
2003-002	Ohio Rev. Code, Section 5705.36, Amended Certificate was made and approved by the Board, however, the amendment was not submitted to the County Auditor or approved by the County Budget Commission until after fiscal year end.	No	Partially Corrected, issued as a management letter citation.





**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 24, 2005**