



Dave Yost • Auditor of State



**LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT  
HIGHLAND COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Lynchburg Clay Local School District  
Highland County  
301 E. 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, 2010, 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, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Food Service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

January 27, 2011

**Lynchburg Clay Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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As management of the Lynchburg Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's performance.

**Financial Highlights**

- The assets of the Lynchburg Clay Local School District exceeded its liabilities at June 30, 2010 by \$25,724,961. Of this amount, \$6,205,995 may be used to meet the School District's ongoing financial obligations. The remaining amounts represent capital assets net of related debt and net assets restricted for specific purposes.
- The School District's net assets decreased \$514,339 during this fiscal year's operations.
- General revenues accounted for \$9,951,850, or 77 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$3,032,177, or 23 percent of total revenues of \$12,984,027.
- The School District had \$13,498,366 in expenses related to governmental activities; only \$3,032,177 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest.

**Using the Basic Financial Statements**

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

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

**Lynchburg Clay Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2010?” The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

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

### **Fund Financial Statements**

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

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

**Lynchburg Clay Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

**Proprietary Fund** - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The Internal Service Fund is used to account for the dental and vision benefits provided to employees, and payment of premiums for medical insurance to the insurance purchasing pool.

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

**The School District as a Whole**

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

Table 1 provides a summary of the School District's net assets for fiscal years 2010 and 2009:

(Table 1)  
Net Assets  
Governmental Activities

	2010	2009	Change in Net Assets
<b>Assets</b>			
Current and Other Assets	\$11,566,694	\$11,495,897	\$70,797
Capital Assets, Net	19,422,601	20,138,162	(715,561)
<b>Total Assets</b>	<b>30,989,295</b>	<b>31,634,059</b>	<b>(644,764)</b>
<b>Liabilities</b>			
Other Liabilities	3,207,757	3,288,769	(81,012)
Long-Term Liabilities	2,056,577	2,105,990	(49,413)
<b>Total Liabilities</b>	<b>5,264,334</b>	<b>5,394,759</b>	<b>(130,425)</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	17,982,597	18,598,159	(615,562)
Restricted	1,536,369	1,355,793	180,576
Unrestricted	6,205,995	6,285,348	(79,353)
<b>Total Net Assets</b>	<b>\$25,724,961</b>	<b>\$26,239,300</b>	<b>(\$514,339)</b>

Total net assets decreased \$514,339. Capital assets decreased due to current year depreciation of \$966,045 exceeding additions. Restricted net assets increased \$180,576 due mainly to the receipt of American Recovery and Reinvestment Act monies.

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

**Lynchburg Clay Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2010**  
**Unaudited**

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

(Table 2)  
 Changes in Net Assets  
 Governmental Activities

	2010	2009	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$1,084,657	\$960,399	\$124,258
Operating Grants, Contributions and Interest	1,930,520	1,448,917	481,603
Capital Grants and Contributions	17,000	16,000	1,000
Total Program Revenues	<u>3,032,177</u>	<u>2,425,316</u>	<u>606,861</u>
General Revenues:			
Property Taxes	2,005,122	1,944,615	60,507
Grants and Entitlements not Restricted to Specific Programs	7,729,192	7,865,402	(136,210)
Gifts and Donations	100	3,250	(3,150)
Interest	119,965	271,383	(151,418)
Miscellaneous	97,471	99,160	(1,689)
Total General Revenues	<u>9,951,850</u>	<u>10,183,810</u>	<u>(231,960)</u>
Total Revenues	<u>12,984,027</u>	<u>12,609,126</u>	<u>374,901</u>
<b>Program Expenses</b>			
Instruction:			
Regular	\$6,166,547	\$5,991,199	\$175,348
Special	1,252,596	1,234,959	17,637
Vocational	213,954	221,144	(7,190)
Student Intervention Services	6,883	58,884	(52,001)
Support Services:			
Pupils	480,884	419,890	60,994
Instructional Staff	759,396	559,776	199,620
Board of Education	39,768	42,602	(2,834)
Administration	1,202,576	1,138,347	64,229
Fiscal	315,607	306,077	9,530
Business	37,191	38,180	(989)
Operation and Maintenance of Plant	1,218,198	1,053,630	164,568
Pupil Transportation	894,163	879,012	15,151
Central	12,000	10,514	1,486
Operation of Non-Instructional Services:			
Food Services	641,159	630,249	10,910
Other	3,068	1,079	1,989
Extracurricular Activities	191,032	171,277	19,755
Interest and Fiscal Charges	63,344	79,560	(16,216)
Total Expenses	<u>13,498,366</u>	<u>12,836,379</u>	<u>661,987</u>
Change in Net Assets	(514,339)	(227,253)	(287,086)
Net Assets at Beginning of Year	<u>26,239,300</u>	<u>26,466,553</u>	<u>(227,253)</u>
Net Assets at End of Year	<u>\$25,724,961</u>	<u>\$26,239,300</u>	<u>(\$514,339)</u>

**Lynchburg Clay Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2010**  
**Unaudited**

Operating grants, contributions and interest increased \$481,603 due to the receipt of American Recovery and Reinvestment Act (ARRA) monies.

Interest decreased \$151,418, due to a much lower average rate of return on investments. Grants and entitlements not restricted to specific programs decreased \$136,210, due to a decrease in State funding.

Regular instruction expenses increased \$175,348 due to a combination of base salary increases along with step salary increases. Step increases are occurring more frequently as new teachers are required to obtain a masters degree within a certain period of time after being hired. The receipt of ARRA monies which were spent for regular instruction also contributed to this increase, as well as an increase in support services instruction staff of \$199,620.

**Governmental Activities**

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

(Table 3)  
 Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction	\$7,639,980	\$5,624,337	\$7,506,186	\$5,872,890
Support Services	4,959,783	4,576,930	4,448,028	4,248,720
Operation of Non-				
Instructional Services	644,227	87,394	631,328	100,798
Extracurricular Activities	191,032	114,184	171,277	109,095
Interest and Fiscal Charges	63,344	63,344	79,560	79,560
Total Expenses	<u>\$13,498,366</u>	<u>\$10,466,189</u>	<u>\$12,836,379</u>	<u>\$10,411,063</u>

**The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,019,905 and expenditures of \$12,765,238. The net change in fund balance for the fiscal year was most significant in the Food Service Fund, an increase of \$39,857. This was due mainly to transfers in from the General Fund.

**Lynchburg Clay Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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The General Fund had a decrease in fund balance of \$8,048. This was due to decreases in State funding and increases in transfers to the All Other Governmental Funds.

The Debt Service Fund saw a decrease in fund balance of \$12,259, which was due to debt service payments exceeding revenues.

**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 2010, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 20, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amount.

For the General Fund, original budgeted revenues were \$11,107,043 and final budgeted revenues were \$10,703,339, a difference of \$403,704. This was primarily due to decreases in estimates for property taxes and intergovernmental revenues. Final budgeted revenues were \$16,292 more than actual. This is due mainly to interest revenues being lower than anticipated.

Both original and final budgeted expenditures were \$11,210,165. The actual budget basis expenditures were \$10,756,601. The majority of the difference between budgeted and actual expenditures of \$453,564, was the result of lower spending of \$215,432 in regular instruction, \$70,826 in special instruction and \$70,975 in operation and maintenance of plant.

**Capital Assets and Debt Administration**

***Capital Assets***

The Lynchburg Clay Local School District's investment in capital assets as of June 30, 2010 was \$19,422,601. This investment in capital assets includes land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles, and books and educational media. Table 4 shows fiscal year 2010 balances compared to fiscal year 2009:

**Lynchburg Clay Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2010**  
**Unaudited**

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

	2010	2009	Change
Land	\$405,668	\$405,668	\$0
Land Improvements	1,234,890	1,324,409	(89,519)
Buildings and Building Improvements	16,571,806	17,191,959	(620,153)
Furniture, Fixtures and Equipment	881,310	817,499	63,811
Vehicles	302,167	364,429	(62,262)
Books and Educational Media	26,760	34,198	(7,438)
<b>Totals</b>	<b>\$19,422,601</b>	<b>\$20,138,162</b>	<b>(\$715,561)</b>

Net capital assets decreased \$715,561 from the prior fiscal year. For more information on capital assets, refer to the note 8 to the basic financial statements.

***Debt***

At June 30, 2010 the School District had \$1,440,000 in bonds outstanding, with \$110,000 due within one year. Table 5 summarizes bonds outstanding:

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

	2010	2009
General Obligation Bonds:		
1998 - School Improvement Bonds	\$555,000	\$555,000
General Obligation Notes:		
2008 - School Improvement Bonds	885,000	984,999
<b>Totals</b>	<b>\$1,440,000</b>	<b>\$1,539,999</b>

The School District's voted legal debt margin was \$8,359,756 with an unvoted debt margin of \$101,115 at June 30, 2010.

For more information on debt, refer to the note 13 to the basic financial statements.

*Lynchburg Clay Local School District*  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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**District Challenges for the Future**

Lynchburg Clay Local School District's financial status continues to be healthy and appears stable for the next four fiscal years. While the School District continues to maintain a healthy cash balance, our projection shows our expenditures will exceed our revenues in fiscal year 2011. 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 60 percent of its funding is received through the State foundation program.

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

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

The projection of student enrollment is another issue that is hard to forecast. During 2010, the School District lost 20 students, due to the local loss of jobs, and subsequent relocation of those families. A significant increase in enrollment during the next several fiscal years is not expected. We feel this is due to the loss of area jobs from various companies, most significantly the closure of DHL Shipping in Clinton County.

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

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

*Lynchburg Clay Local School District*  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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

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

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**Lynchburg Clay Local School District**

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$9,389,311
Accrued Interest Receivable	28,163
Accounts Receivable	5,108
Inventory Held for Resale	3,119
Materials and Supplies Inventory	373
Intergovernmental Receivable	99,187
Property Taxes Receivable	2,021,669
Deferred Charges	19,764
Capital Assets:	
Land	405,668
Depreciable Capital Assets, Net	<u>19,016,933</u>
<i>Total Assets</i>	<u>30,989,295</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	110,909
Accrued Wages and Benefits Payable	973,789
Intergovernmental Payable	347,793
Deferred Revenue	1,721,762
Matured Compensated Absences Payable	46,345
Accrued Interest Payable	5,174
Claims Payable	1,985
Long-Term Liabilities:	
Due Within One Year	151,007
Due in More Than One Year	<u>1,905,570</u>
<i>Total Liabilities</i>	<u>5,264,334</u>
<b><u>Net Assets:</u></b>	
Invested in Capital Assets, Net of Related Debt	17,982,597
Restricted for:	
Capital Projects	100,293
Debt Service	719,775
Classroom Facilities	622,048
Set-Asides	30,409
Other Purposes	63,844
Unrestricted	<u>6,205,995</u>
<i>Total Net Assets</i>	<u><u>\$25,724,961</u></u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		
<b><u>Governmental Activities:</u></b>					
Instruction:					
Regular	\$6,166,547	\$596,839	\$182,501	\$0	(\$5,387,207)
Special	1,252,596	101,209	1,046,816	0	(104,571)
Vocational	213,954	21,749	60,027	0	(132,178)
Student Intervention Services	6,883	6,502	0	0	(381)
Support Services:					
Pupils	480,884	0	71,298	0	(409,586)
Instructional Staff	759,396	0	174,389	0	(585,007)
Board of Education	39,768	0	0	0	(39,768)
Administration	1,202,576	0	48,535	0	(1,154,041)
Fiscal	315,607	0	0	0	(315,607)
Business	37,191	0	0	0	(37,191)
Operation and Maintenance of Plant	1,218,198	865	6,859	17,000	(1,193,474)
Pupil Transportation	894,163	0	58,907	0	(835,256)
Central	12,000	0	5,000	0	(7,000)
Operation of Non-Instructional Services:					
Food Services	641,159	282,820	274,013	0	(84,326)
Other	3,068	0	0	0	(3,068)
Extracurricular Activities	191,032	74,673	2,175	0	(114,184)
Interest and Fiscal Charges	63,344	0	0	0	(63,344)
<b>Total Governmental Activities</b>	<b>\$13,498,366</b>	<b>\$1,084,657</b>	<b>\$1,930,520</b>	<b>\$17,000</b>	<b>(10,466,189)</b>
<b><u>General Revenues:</u></b>					
Property Taxes Levied for:					
					1,830,089
					135,871
					39,162
Grants and Entitlements not					
					7,729,192
Restricted to Specific Programs					
					100
					119,965
					97,471
<b>Total General Revenues</b>					<b>9,951,850</b>
<b>Change in Net Assets</b>					<b>(514,339)</b>
<b>Net Assets at Beginning of Year</b>					<b>26,239,300</b>
<b>Net Assets at End of Year</b>					<b>\$25,724,961</b>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Balance Sheet  
 Governmental Funds  
 June 30, 2010

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<b><u>Assets:</u></b>					
Equity in Pooled Cash and Cash Equivalents	\$7,667,858	\$40,569	\$704,457	\$863,778	\$9,276,662
Inventory Held for Resale	0	3,119	0	0	3,119
Materials and Supplies Inventory	0	373	0	0	373
Accrued Interest Receivable	28,163	0	0	0	28,163
Accounts Receivable	5,108	0	0	0	5,108
Interfund Receivable	11,198	0	0	0	11,198
Intergovernmental Receivable	3,510	27,381	0	68,296	99,187
Property Taxes Receivable	1,849,504	0	131,747	40,418	2,021,669
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	31,371	0	0	0	31,371
<b>Total Assets</b>	<b>\$9,596,712</b>	<b>\$71,442</b>	<b>\$836,204</b>	<b>\$972,492</b>	<b>\$11,476,850</b>
<b><u>Liabilities:</u></b>					
Accounts Payable	\$78,940	\$270	\$0	\$31,699	\$110,909
Accrued Wages and Benefits Payable	882,982	29,722	0	61,085	973,789
Matured Compensated Absences Payable	45,371	974	0	0	46,345
Interfund Payable	0	0	0	11,198	11,198
Intergovernmental Payable	315,259	13,666	0	18,868	347,793
Deferred Revenue	1,670,599	0	117,042	59,417	1,847,058
<b>Total Liabilities</b>	<b>2,993,151</b>	<b>44,632</b>	<b>117,042</b>	<b>182,267</b>	<b>3,337,092</b>
<b><u>Fund Balances:</u></b>					
Reserved for Encumbrances	62,309	336	0	26,248	88,893
Reserved for Property Taxes	196,385	0	14,705	4,086	215,176
Reserved for Budget Stabilization	30,409	0	0	0	30,409
Reserved for Bus Purchases	962	0	0	0	962
Unreserved:					
Undesignated, Reported in:					
General Fund	6,313,496	0	0	0	6,313,496
Special Revenue Funds	0	26,474	0	662,010	688,484
Debt Service Fund	0	0	704,457	0	704,457
Capital Projects Funds	0	0	0	97,881	97,881
<b>Total Fund Balances</b>	<b>6,603,561</b>	<b>26,810</b>	<b>719,162</b>	<b>790,225</b>	<b>8,139,758</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$9,596,712</b>	<b>\$71,442</b>	<b>\$836,204</b>	<b>\$972,492</b>	<b>\$11,476,850</b>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2010

**Total Governmental Fund Balances** \$8,139,758

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

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

Land	405,668	
Other capital assets	32,255,733	
Accumulated depreciation	(13,238,800)	
Total capital assets	19,422,601	19,422,601

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	84,731	
Interest	17,480	
Intergovernmental	23,085	
	125,296	125,296

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. 79,293

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (5,174)

Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 19,764

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	(1,440,000)	
Premium on debt issue	(25,561)	
Deferred loss on refunding	5,793	
Compensated absences	(596,809)	
	(2,056,577)	(2,056,577)

**Net Assets of Governmental Activities** \$25,724,961

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balance:  
Governmental Funds  
For the Fiscal Year Ended June 30, 2010

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<b><u>Revenues:</u></b>					
Property Taxes	\$1,814,833	\$0	\$134,716	\$38,954	\$1,988,503
Intergovernmental	8,059,317	274,013	20,493	1,358,530	9,712,353
Interest	117,646	0	0	0	117,646
Tuition and Fees	726,299	0	0	0	726,299
Rent	865	0	0	0	865
Extracurricular Activities	0	0	0	74,673	74,673
Gifts and Donations	100	0	0	19,175	19,275
Customer Sales and Services	0	282,820	0	0	282,820
Miscellaneous	59,491	574	0	37,406	97,471
<i>Total Revenues</i>	<u>10,778,551</u>	<u>557,407</u>	<u>155,209</u>	<u>1,528,738</u>	<u>13,019,905</u>
<b><u>Expenditures:</u></b>					
Current:					
Instruction:					
Regular	5,428,521	0	0	299,387	5,727,908
Special	889,558	0	0	303,983	1,193,541
Vocational	191,407	0	0	2,700	194,107
Student Intervention Services	7,042	0	0	0	7,042
Support Services:					
Pupils	385,454	0	0	74,890	460,344
Instructional Staff	482,902	0	0	247,903	730,805
Board of Education	39,717	0	0	0	39,717
Administration	1,040,256	0	0	72,756	1,113,012
Fiscal	311,685	0	3,875	1,135	316,695
Business	37,191	0	0	0	37,191
Operation and Maintenance of Plant	937,557	6,409	0	247,427	1,191,393
Pupil Transportation	808,458	0	0	18,850	827,308
Central	1,000	0	0	11,000	12,000
Operation of Non-Instructional Services:					
Food Services	421	543,079	0	0	543,500
Other	0	0	0	53	53
Extracurricular Activities	118,492	0	0	68,737	187,229
Capital Outlay	0	0	0	19,800	19,800
Debt Service:					
Principal Retirement	0	0	99,999	0	99,999
Interest and Fiscal Charges	0	0	63,594	0	63,594
<i>Total Expenditures</i>	<u>10,679,661</u>	<u>549,488</u>	<u>167,468</u>	<u>1,368,621</u>	<u>12,765,238</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>98,890</u>	<u>7,919</u>	<u>(12,259)</u>	<u>160,117</u>	<u>254,667</u>
<b><u>Other Financing Sources (Uses):</u></b>					
Transfers In	0	31,938	0	75,000	106,938
Transfers Out	(106,938)	0	0	0	(106,938)
<i>Total Other Financing Sources (Uses)</i>	<u>(106,938)</u>	<u>31,938</u>	<u>0</u>	<u>75,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(8,048)	39,857	(12,259)	235,117	254,667
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>6,611,609</u>	<u>(13,047)</u>	<u>731,421</u>	<u>555,108</u>	<u>7,885,091</u>
<i>Fund Balances at End of Year</i>	<u>\$6,603,561</u>	<u>\$26,810</u>	<u>\$719,162</u>	<u>\$790,225</u>	<u>\$8,139,758</u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
 Reconciliation of the Change in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2010

**Net Change in Fund Balances - Total Governmental Funds** \$254,667

**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	251,548	
Depreciation expense	(966,045)	
Excess of capital outlay under depreciation expense		(714,497)

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

Loss on disposal of capital assets		(1,064)
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Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	16,619	
Interest	1,660	
Intergovernmental	(54,816)	
		(36,537)

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

(64,774)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current fiscal year, this amount consisted of

Bond payments		99,999
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the Statement of Activities is the result of the following:

Decrease in accrued interest		250
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The amortization of the bond premium, issuance costs and the deferred gain on the refunding of debt are not reported in the funds, but are allocated as an expense over the life of the debt in the Statement of Activities

Amortization of deferred loss	(527)	
Amortization of bond premium	2,324	
Amortization of bond issuance costs	(1,797)	
		0

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		(52,383)
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**Change in Net Assets of Governmental Activities** (\$514,339)

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  
General Fund  
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Property Taxes	\$1,977,216	\$1,698,050	\$1,698,050	\$0
Intergovernmental	8,182,237	8,056,315	8,056,024	(291)
Interest	139,496	155,000	137,344	(17,656)
Tuition and Fees	737,678	725,284	726,299	1,015
Rent	879	865	865	0
Gifts and Donations	102	100	100	0
Miscellaneous	69,435	67,725	68,365	640
<i>Total Revenues</i>	<u>11,107,043</u>	<u>10,703,339</u>	<u>10,687,047</u>	<u>(16,292)</u>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	5,661,206	5,661,206	5,445,774	215,432
Special	975,291	975,291	904,465	70,826
Vocational	201,461	201,461	197,216	4,245
Student Intervention Services	15,700	15,700	9,703	5,997
Support Services:				
Pupils	409,737	409,737	395,394	14,343
Instructional Staff	496,248	496,248	481,189	15,059
Board of Education	41,602	41,602	39,814	1,788
Administration	1,075,971	1,075,971	1,040,372	35,599
Fiscal	307,474	307,474	309,365	(1,891)
Business	37,300	37,300	37,191	109
Operation and Maintenance of Plant	1,023,624	1,023,624	952,649	70,975
Pupil Transportation	854,014	854,014	824,816	29,198
Central	1,000	1,000	1,000	0
Operation of Non-Instructional Services:				
Food Services	0	0	421	(421)
Extracurricular Activities	109,537	109,537	117,232	(7,695)
<i>Total Expenditures</i>	<u>11,210,165</u>	<u>11,210,165</u>	<u>10,756,601</u>	<u>453,564</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(103,122)</u>	<u>(506,826)</u>	<u>(69,554)</u>	<u>437,272</u>
<b><u>Other Financing Uses:</u></b>				
Transfers Out	(75,000)	(75,000)	(75,000)	0
Other Financing Uses	(3,137,041)	(3,137,041)	0	3,137,041
<i>Total Other Financing Uses</i>	<u>(3,212,041)</u>	<u>(3,212,041)</u>	<u>(75,000)</u>	<u>3,137,041</u>
<i>Net Change in Fund Balance</i>	(3,315,163)	(3,718,867)	(144,554)	3,574,313
<i>Fund Balance at Beginning of Year</i>	7,571,352	7,571,352	7,571,352	0
<i>Prior Year Encumbrances Appropriated</i>	161,253	161,253	161,253	0
<i>Fund Balance at End of Year</i>	<u>\$4,417,442</u>	<u>\$4,013,738</u>	<u>\$7,588,051</u>	<u>\$3,574,313</u>

See accompanying notes to the basic financial statements

**Lynchburg Clay Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Food Service Fund  
For the Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><u>Revenues:</u></b>				
Intergovernmental	\$232,323	\$245,506	\$245,425	(\$81)
Customer Sales and Services	267,634	282,820	282,820	0
Miscellaneous	543	574	574	0
<i>Total Revenues</i>	<u>500,500</u>	<u>528,900</u>	<u>528,819</u>	<u>(81)</u>
<b><u>Expenditures:</u></b>				
Current:				
Support Services:				
Operation and Maintenance of Plant	6,108	6,211	6,211	0
Operation of Non-Instructional Services:				
Food Services	528,319	537,226	517,846	19,380
<i>Total Expenditures</i>	<u>534,427</u>	<u>543,437</u>	<u>524,057</u>	<u>19,380</u>
<i>Net Change in Fund Balance</i>	(33,927)	(14,537)	4,762	19,299
<i>Fund Balance at Beginning of Year</i>	34,613	34,613	34,613	0
<i>Prior Year Encumbrances Appropriated</i>	<u>858</u>	<u>858</u>	<u>858</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$1,544</u></u>	<u><u>\$20,934</u></u>	<u><u>\$40,233</u></u>	<u><u>\$19,299</u></u>

See accompanying notes to the basic financial statements

***Lynchburg Clay Local School District***

Statement of Fund Net Assets

Internal Service Fund

June 30, 2010

	<u>Self-Insurance</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$81,278
<b><u>Liabilities:</u></b>	
Claims Payable	<u>1,985</u>
<b><u>Net Assets:</u></b>	
Unrestricted	<u><u>\$79,293</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, 2010

	Self-Insurance	Totals (Memorandum Only)
<b><u>Operating Revenues:</u></b>		
Charges for Services	\$1,230,109	1,230,109
<b><u>Operating Expenses:</u></b>		
Purchased Services	1,284,120	1,284,120
Claims	11,422	11,422
<i>Total Operating Expenses</i>	1,295,542	1,295,542
<i>Operating Loss</i>	(65,433)	(65,433)
<b><u>Non-Operating Revenues:</u></b>		
Interest	659	659
<i>Change in Net Assets</i>	(64,774)	(64,774)
<i>Net Assets at Beginning of Year</i>	144,067	144,067
<i>Net Assets at End of Year</i>	\$79,293	\$79,293

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, 2010

	<u>Self-Insurance</u>
<i>Increases (Decreases) in Cash and Cash Equivalents</i>	
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Interfund Services Provided	\$1,230,109
Cash Payments to Suppliers for Goods and Services	(1,284,120)
Cash Payments for Claims	<u>(23,228)</u>
<i>Net Cash Used for Operating Activities</i>	(77,239)
<b><u>Cash Flows from Investing Activities</u></b>	
Interest	<u>659</u>
<i>Decrease in Cash and Cash Equivalents</i>	(76,580)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>157,858</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$81,278</u></u>
<b>Reconciliation of Operating Loss to Net Cash</b>	
<b><u>Used for Operating Activities</u></b>	
Operating Loss	(\$65,433)
<b>Adjustments to Reconcile Operating Loss to</b>	
<b><u>Net Cash Used for Operating Activities</u></b>	
Decrease in Claims Payable	<u>(11,806)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$77,239)</u></u>

**Lynchburg Clay Local School District**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$155,055	\$30,318
<b><u>Liabilities:</u></b>		
Undistributed Monies	0	\$30,318
<b><u>Net Assets:</u></b>		
Held in Trust for Scholarships	\$155,055	

See accompanying notes to the basic financial statements

***Lynchburg Clay Local School District***  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2010**

	Private Purpose Trust
	Scholarship
<b><u>Additions:</u></b>	
Interest	\$2,745
<b><u>Deductions:</u></b>	
Payments in Accordance with Trust Agreements	3,000
<i>Change in Net Assets</i>	(255)
<i>Net Assets at Beginning of Year</i>	155,310
<i>Net Assets at End of Year</i>	\$155,055

See accompanying notes to the basic financial statements

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*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

**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. 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 Village of Lynchburg, the community of Buford, and Dodson, Salem, Hamer, Union, Clay and Whiteoak Townships in Highland County, Perry and Green Townships in Brown County, and Clark Township in Clinton County. It is staffed by 82 non-certificated employees, 85 certificated personnel and seven administrative employees who provide services to 1,325 students. The School District currently operates three instructional buildings, one administrative building, and one garage.

**Reporting Entity**

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

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

The School District participates in two jointly governed organizations, and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Great Oaks Institute of Technology and Career Development, the Brown County Schools Benefits Consortium and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 to the basic financial statements.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

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

**A. Basis of Presentation**

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

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Fund Financial Statements

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

**B. Fund Accounting**

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

Governmental Funds

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

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

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

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

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Proprietary Fund

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

Internal Service Fund - Internal Service Funds account for the financing of services provided by one department or agency to the other departments or agencies of the School District. The Internal Service Fund is used to account for dental and vision benefits provided to employees and the collection and payment of premiums for medical insurance to the insurance purchasing pool.

Fiduciary Funds

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

**C. Measurement Focus**

Government-wide Financial Statements

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Fund Financial Statements

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

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

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

**D. Basis of Accounting**

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

Revenues-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**E. Budgetary Process**

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

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

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

**F. Cash and Cash Equivalents**

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

During fiscal year 2010, the School District's investments were limited to money market mutual funds, AIM Government Securities Fund, negotiable certificates of deposit, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal National Mortgage Association Global Notes, Federal National Mortgage Association Medium Term Notes, and Federal National Mortgage Association Step Up Medium Term Notes. Investments are reported at fair value which is based on quoted market price.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$117,646, which includes \$20,576 assigned from other School District funds.

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

**G. Inventory**

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

**H. Capital Assets**

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

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

All reported capital assets, except land, 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:

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**I. Interfund Balances**

On the fund financial statements, short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

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

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

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

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

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

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

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**L. Internal Activity**

Transfers between government funds are eliminated on the government-wide financial statements.

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

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

**M. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unexpended revenues restricted for the purchase of buses and amounts required by statute to be set aside by the School District to create a reserve for budget stabilization. See Note 16 for additional information regarding set-asides.

**N. Fund Balance Reserves**

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

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**O. Loss on Refunding**

On the government-wide financial statements, a current refunding resulting in the defeasance of debt generates an accounting gain or loss calculated by comparing the reacquisition price and the net carrying amount of the old debt. This accounting gain/loss is amortized as interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an increase/reduction of the face amount of the new debt.

**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 music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

**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.

**R. Bond Premiums/Issuance Costs**

In the government-wide financial statements, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds payable whereas issuance costs are recorded as deferred charges.

On the governmental fund financial statements, bond premiums and issuance costs are recognized in the period when the debt is issued.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs, which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents once classification from being overstated while another is understated by the same amount.

**NOTE 3 - ACCOUNTABILITY**

At June 30, 2010, the Title VI-B Grant, Title I Grant, Preschool Disability and Title VI-R Grant Special Revenue Funds had deficit balances of \$23,994, \$10,531, \$2,713, and \$2,803, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Net Change in Fund Balance		
	General	Food Service
GAAP Basis	(\$8,048)	\$39,857
Adjustments:		
Revenue Accruals	(104,121)	(28,588)
Increase in Fair Market Value of Investments Fiscal Year 2010	(9,321)	0
Increase in Fair Market Value of Investments Fiscal Year 2009	21,938	0
Expenditure Accruals	36,115	25,767
Encumbrances	(113,055)	(336)
Transfers	31,938	(31,938)
Budget Basis	(\$144,554)	\$4,762

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2010, the School District had the following investments, which are in an internal investment pool:

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody Rating</u>	<u>Concentration of Credit Risk</u>
Money Market Mutual Funds	\$1,196,612	Less than one year	N/A	N/A
Negotiable Certificates of Deposit	1,761,683	1 - 2 years	N/A	19.71%
Federal Home Loan Bank Notes	1,420,690	5 years	Aaa	15.89%
Federal Home Loan Mortgage Corporation Medium Term Notes	506,850	3 - 4 years	Aaa	5.67%
Federal National Mortgage Association Global Notes	407,624	5 years	Aaa	N/A
Federal National Mortgage Association Medium Term Notes	608,064	3 - 4 years	Aaa	6.80%
Federal National Mortgage Association Step Up Medium Term Notes	3,038,700	5 years	Aaa	33.99%
Total Investments	<u>\$8,940,223</u>			

**Interest Rate Risk**

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

**Credit Risk**

The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk**

The School District places no limit on the amount it may invest in any one issuer.

**NOTE 6 - PROPERTY TAXES**

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

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in calendar year 2010 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland, Clinton and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2010, are available to finance fiscal year 2010 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, 2010 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.

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

The amount available as an advance at June 30, 2010 was \$196,385 in the General Fund, \$14,705 in the Debt Service Fund, and \$4,086 in the Classroom Facilities Fund (All Other Governmental Funds). The amount available as an advance at June 30, 2009, was \$79,602 in the General Fund, \$5,949 in the Debt Service fund, and \$1,807 in the Classroom Facilities Fund (All Other Governmental Funds).

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 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$88,081,610	95.79%	\$97,343,550	96.19%
Public Utility Personal	3,701,650	4.03%	3,771,580	3.73%
General Business Personal	164,470	0.18%	82,235	0.08%
Total Assessed Value	<u>\$91,947,730</u>	<u>100.00%</u>	<u>\$101,197,365</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.80		\$24.80	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2010, consisted of interest, accounts, interfund, intergovernmental grants, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs. All receivables will be collected within one year except for property taxes. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	Amount
<u>Governmental Activities:</u>	
Medicaid Reimbursement	\$3,510
Food Service - Federal Lunch Reimbursement	27,381
Career Development Grant	900
Title VI-B Grant	40,815
Title II-D ARRA Grant	341
Title I Grant	14,634
Preschool Disability Grant	2,919
Title VI-R Grant	8,687
Total Intergovernmental Receivable	<u>\$99,187</u>

**Lynchburg Clay Local School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**  
**(Continued)**

**NOTE 8 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Deductions	Balance at 6/30/10
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$405,668	\$0	\$0	\$405,668
Capital Assets Being Depreciated:				
Land Improvements	2,296,310	14,415	0	2,310,725
Buildings and Building Improvements	25,045,969	19,800	0	25,065,769
Furniture, Fixtures and Equipment	2,623,019	198,483	(3,278)	2,818,224
Vehicles	1,378,435	18,850	0	1,397,285
Books and Educational Media	663,730	0	0	663,730
Total Capital Assets Being Depreciated	<u>32,007,463</u>	<u>251,548</u>	<u>(3,278)</u>	<u>32,255,733</u>
Less Accumulated Depreciation:				
Land Improvements	(971,901)	(103,934)	0	(1,075,835)
Buildings and Building Improvements	(7,854,010)	(639,953)	0	(8,493,963)
Furniture, Fixtures and Equipment	(1,805,520)	(133,608)	2,214	(1,936,914)
Vehicles	(1,014,006)	(81,112)	0	(1,095,118)
Books and Educational Media	(629,532)	(7,438)	0	(636,970)
Total Accumulated Depreciation	<u>(12,274,969)</u>	<u>(966,045) *</u>	<u>2,214</u>	<u>(13,238,800)</u>
Total Capital Assets Being Depreciated, Net	<u>19,732,494</u>	<u>(714,497)</u>	<u>(1,064)</u>	<u>19,016,933</u>
Governmental Activities Capital Assets, Net	<u>\$20,138,162</u>	<u>(\$714,497)</u>	<u>(\$1,064)</u>	<u>\$19,422,601</u>

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

Instruction:	
Regular	\$538,747
Special	60,058
Vocational	25,413
Support Services:	
Pupils	18,500
Instructional Staff	15,351
Administration	77,878
Fiscal	520
Operation and Maintenance of Plant	50,398
Pupil Transportation	80,614
Operation of Non-Instructional Services:	
Food Services	95,274
Extracurricular Activities	3,292
Total Depreciation Expense	<u>\$966,045</u>

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**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 2010, the School District contracted with Indiana Insurance for property insurance, fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents - at replacement cost (\$1,000 deductible)	\$27,450,000
Commercial Computer Coverage (\$500 deductible)	100,000
Musical Instruments Coverage (\$500 deductible)	100,000
General Liability:	
Aggregate Limit	\$3,000,000
Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense	2,000,000
Personal and Advertising Injury Limit - Each Offense	2,000,000
Medical Expense Limit - Per Person/Accident	15,000
Medical Expense Limit - Each Accident	15,000
Fire Damage Limit - Any One Event	300,000
Employer's Liability:	
Bodily Injury - Each Accident	2,000,000
Bodily Injury - Endorsement Limit	2,000,000
Bodily Injury by Disease - Each Employee	2,000,000
Employee Benefits Liability:	
Per Claim	2,000,000
Aggregate Limit	3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit (\$2,500 deductible)	2,000,000
Errors and Omissions Aggregate Limit	2,000,000
Employment Practices Injury Limit (\$2,500 deductible)	2,000,000
Employment Practices Aggregate Limit	2,000,000
Defense Costs Cap	100,000
Defense Costs Aggregate Cap	100,000
Fleet/Automobile Liability (deductibles \$500 collision, \$250 comprehensive)	
Liability	2,000,000
Uninsured Motorists Coverage	2,000,000
Sexual Misconduct and Molestation Liability Coverage	
Each Loss Limit	2,000,000
Aggregate Limit	2,000,000
Defense Costs Aggregate Cap	300,000

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

Settled claims have not exceeded this commercial coverage in any of the past five fiscal years. Building and contents coverage increased \$2,250,000, due to a revised estimate in replacement cost by the insurance provider.

**B. Workers' Compensation**

For fiscal year 2010, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

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

Vision and dental benefits are provided through a self-insurance program. Monthly premiums are paid to Medical Mutual, who in turn pays the claims on the School District's behalf.

The information presented below represents an estimate of vision and dental claims. The claims liability of \$1,985 reported in the internal service fund at June 30, 2010, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2009	\$22,778	\$135,619	\$144,606	\$13,791
2010	13,791	11,422	23,228	1,985

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**D. Employee Medical Benefits**

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), an insurance purchasing pool (Note 15) consisting of nine members. The Consortium has elected to have United Health Care provide medical coverage purchased as a group through the Consortium. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage benefits. The Consortium is responsible for the management and operation of the program.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy – 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 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$246,060, \$158,084, and \$92,169, respectively; 57.46 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

**B. State Teachers Retirement System of Ohio**

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For the fiscal year ended June 30, 2010, 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 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$643,824, \$622,793, and \$612,634, respectively; 82.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$18,736 made by the School District and \$13,383 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, four members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$42,958, \$96,424, and \$64,606, respectively; 57.46 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$14,633, \$13,043, and \$6,641, respectively; 57.46 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

Plan Description – The School District contributes to the cost-sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$49,525, \$47,907, and \$47,126, respectively; 82.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from School District policies and State laws. Eligible classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Each fiscal year, employees are given the option to request payment for up to 10 days of vacation leave at fiscal year-end.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

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

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 under either SERS or STRS. The employees who give written notice of the intended retirement date on or before March 1 of the year in which they intend to retire will receive an incentive payment. The employees may exercise this option in the first, second, or third year of eligibility for retirement. The incentive amount is calculated by multiplying an average of the last three full years' wages by the years of service and a factor rate. The factor rate is .005 for the first year, .0033 for the second year, and .0025 for the third year. Payment is made on June 1 of the year in which the employee retires. During fiscal year 2010, no employees received the special termination benefit.

**C. Insurance Benefits**

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

**NOTE 13 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Amounts Outstanding 6/30/2009	Additions	Deductions	Amounts Outstanding 6/30/2010	Amounts Due in One Year
Governmental Activities:					
1998 School Improvement Bonds, 3.8%	\$555,000	\$0	\$0	\$555,000	\$0
2008 School Improvement Bonds, 3.8%	984,999	0	99,999	885,000	110,000
Premium on Refunding	27,885	0	2,324	25,561	0
Deferred Loss on Refunding	(6,320)	527	0	(5,793)	0
Compensated Absences	544,426	90,759	38,376	596,809	41,007
Total Governmental Activities	<u>\$2,105,990</u>	<u>\$91,286</u>	<u>\$140,699</u>	<u>\$2,056,577</u>	<u>\$151,007</u>

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**NOTE 13 - LONG-TERM OBLIGATIONS** (Continued)

**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 23 year period with final maturity in fiscal year 2021. The bonds will be paid from the Debt Service Fund with property taxes.

In September 2008, the School District issued \$984,999 in school improvement bonds for the purpose of refunding a portion of the 1998 School Improvement Bonds. The bonds were issued for a 12 year period, with final maturity in December 2020.

Compensated absences will be paid from the General, Food Service, Title VI-B, Fiscal Stabilization, Title I, and Title VI-R Funds.

The School District's overall legal debt margin was \$8,359,756 with an unvoted debt margin of \$101,115 at June 30, 2010.

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2010, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2011	\$110,000	\$59,131	\$169,131
2012	115,000	53,065	168,065
2013	120,000	46,719	166,719
2014	125,000	40,091	165,091
2015	131,103	37,087	168,190
2016-2020	678,897	164,654	843,551
2021	160,000	3,200	163,200
Total	<u>\$1,440,000</u>	<u>\$403,947</u>	<u>\$1,843,947</u>

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

**A. South Central Ohio Computer Association**

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and a representative of the fiscal agent. The School District paid SCOCA \$94,997 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

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

**NOTE 15 - INSURANCE PURCHASING POOLS**

**A. Brown County Schools Benefits Consortium**

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide medical insurance (insurance purchasing pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley Union Lewis Huntington, Southern Hills Joint Vocational, and Western Brown Schools) and two Highland County school districts (Bright and Lynchburg Clay) along with the Brown County Educational Service Center have entered into an agreement to form the Brown County Schools Benefits Consortium. The Consortium is governed by a nine member board consisting of the superintendents of each participating school district along with the superintendent of the Brown County Educational Service Center.

*Lynchburg Clay Local School District*  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**NOTE 15 - INSURANCE PURCHASING POOLS** (continued)

The overall objectives of the consortium are to formulate and administer a program of medical insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with United Healthcare to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to the Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

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

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

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

**NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

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

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES** (continued)

	Textbooks and Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2009	(\$710,278)	\$0	\$30,409
Current Fiscal Year Set-aside Requirement	218,289	218,289	0
Current Fiscal Year Qualifying Expenditures	(211,951)	(331,547)	0
Totals	<u>(\$703,940)</u>	<u>(\$113,258)</u>	<u>\$30,409</u>
Set-aside Reserve Balance as of June 30, 2010	<u>\$0</u>	<u>\$0</u>	<u>\$30,409</u>
Set-Aside Balance Carried Forward to Fiscal Year 2011	<u>(\$703,940)</u>	<u>\$0</u>	<u>\$30,409</u>

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

**NOTE 17 - INTERFUND ACTIVITY**

**A. Interfund Receivables/Payables**

As of June 30, 2010, receivables and payables that resulted from various interfund transactions were as follows:

Payable	Receivable General Fund
All Other Governmental Funds	<u>\$11,198</u>

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

**B. Transfers To/From Other Funds**

Transfers made during the fiscal year ended June 30, 2010, were as follows:

**Lynchburg Clay Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010  
(Continued)

**NOTE 17 - INTERFUND ACTIVITY** (Continued)

Transfer From	Transfer To		
	Food Service Fund	All Other Governmental Funds	Total
General Fund	\$31,938	\$75,000	\$138,876

Transfers were made to the Food Service Special Revenue Fund and the All Other Governmental Funds to support programs and projects accounted for in those funds.

**NOTE 18 - 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, 2010.

**B. Litigation**

The School District is not currently party to legal proceedings.

**LYNCHBURG CLAY LOCAL SCHOOL DISTRICT  
HIGHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Breakfast Program	05-PU-2010	10.553	\$60,285		\$60,285	
	05-PU-2009					
National School Lunch Program	LL-P4-2009	10.555	178,062	\$25,394	178,062	\$23,982
	LL-P4-2010					
Total Nutrition Cluster			<u>238,347</u>	<u>25,394</u>	<u>238,347</u>	<u>23,982</u>
Total U.S. Department of Agriculture			<u>238,347</u>	<u>25,394</u>	<u>238,347</u>	<u>23,982</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
IDEA Part B	6B-SF-2009	84.027	221,024		226,170	
	6B-SF-2010					
IDEA Part B - Stimulus		84.391	207,665		203,091	
Early Childhood	PG-S1-2010	84.173	2,986		3,393	
Early Childhood - Stimulus		84.392	2,093		4,729	
Total Special Education Cluster			<u>433,768</u>		<u>437,383</u>	
Title I Cluster:						
ESEA Title I	C1-S1-2010	84.010	181,789		164,259	
	C1-S1-2009					
ESEA Title I - Stimulus		84.389	55,300		50,236	
Total Title I Cluster			<u>237,089</u>		<u>214,495</u>	
Fiscal Stabilization		84.394	487,707		458,023	
Drug Free Schools Grant	DR-S1-2009	84.186	5,151		3,447	
	DR-S1-2010					
Title II-D Technology	TJ-S1-2009	84.318	1,983		1,939	
	TJ-S1-2010					
Improving Teacher Quality	TR-S1-2009	84.367	71,061		64,427	
	TR-S1-2010					
Total U.S. Department of Education			<u>1,236,759</u>		<u>1,179,714</u>	
<b>Total</b>			<u><u>\$1,475,106</u></u>	<u><u>\$25,394</u></u>	<u><u>\$1,418,061</u></u>	<u><u>\$23,982</u></u>

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

**LYNCHBURG CLAY LOCAL SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Lynchburg Clay Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

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

Lynchburg Clay Local School District  
Highland County  
301 E. 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 21, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

January 27, 2011



# Dave Yost • Auditor of State

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

Lynchburg Clay Local School District  
Highland County  
301 E. 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 could directly and materially affect each of Lynchburg Clay Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2010-001.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2010-001. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 27, 2011.

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



**Dave Yost**  
Auditor of State

January 27, 2011

**LYNCHBURG CLAY LOCAL SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	State Fiscal Stabilization Fund CFDA #84.394 Special Education Cluster CFDA #84.027, 84.173, 84.391, 84.392
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None.

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

**Noncompliance – Significant Deficiency**

**FINDING NUMBER 2010-001**

**2 C.F.R. §215.28** states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

**34 CFR §76.707(e)** specifies that if the obligation is for public utility services, the obligation is made when the State or sub-grantee receives the services.

The period of availability for the State Fiscal Stabilization Fund (SFSF) ARRA grants runs from July 1, 2009 through September 30, 2011.

During fiscal year 2010, May and June 2009 utility payments in the amount of \$19,794 were charged to the SFSF grant. The obligation was incurred outside the period of availability. Breakdown of these payments is detailed below:

Check Number	Check Date	Vendor	Amount	Service Date	Total Days Billed	Days Charged Prior to July 1, 2009	Amount To be Questioned
62798	7/21/09	South Central Power	\$16,105	5/27/09–6/25/09	29	29	\$16,105
62912	8/18/09	South Central Power	\$18,947	6/26/09-7/28/09	33	5	\$ 2,871
62815	7/29/09	Dayton Power & Light	\$ 1,500	6/13/09-7/15/09	33	18	\$ 818
		<b>Total</b>	<b>\$36,552</b>				<b>\$ 19,794</b>

The Ohio Department of Education permitted the District to move allowable expenditures out of the general fund into the state fiscal stabilization fund and to move the unallowable expenditures out of the state fiscal stabilization fund into the general fund to correct this issue. If the Ohio Department of Education had not approved the re-allocation of expenditures, the unallowable expenditures would have resulted in a federal questioned cost to the District.

By maintaining accurate supporting documentation, and expending Federal Funds only in accordance with grant requirements, the District will gain assurance that all expenditures paid using Federal grant funds are being made only within the period of availability. Failure to comply with grant requirements could result in future questioned costs and potential loss of federal financial assistance. We recommend the District use grant funds only for expenditures obligated during the period of availability and that grant.

**FINDING NUMBER 2010-001  
(Continued)**

**Official's Response:**

State Fiscal Stabilization Fund (SFSF) grants were issued to Ohio school districts beginning 07/01/09, with little guidance as to how these funds could be used. I held onto these funds until approximately four months into fiscal year 2010, when I was able to receive some federal regulations as to how these monies could legally be spent. At this point, Lynchburg-Clay and a majority of other Ohio school districts had an SFSF fund balance on hand. I was told by the Ohio Department of Education these fund balances could trigger a federal citation on fund cash management. In trying to avoid a citation, I scrambled to find ways to legally spend these funds in a short period of time.

To spend down the fund balance in a quick time frame, I decided to distribute electric expenses from July 2009 through October 2009 to these stimulus funds. Although electric expenses for school buildings are legal expenditures for SFSF funding, I inadvertently paid an electric bill with a July 2009 invoice date, but contained electric usage from May and June of 2009. The period of electric usage in May and June 2009 is outside the period of availability since SFSF funds were not available to school districts until 07/01/09. After reviewing these expenditures, and finding these expenditures were actually made for a legal purpose, the Ohio Department of Education allowed Lynchburg-Clay Local School District to adjust these expenditures by re-allocating funds spent for May and June 2009 electric charges back to the General Fund and trading them for other legal expenditures made during the period of availability out of the General Fund.





# Dave Yost • Auditor of State

LYNCHBURG CLAY LOCAL SCHOOL DISTRICT

HIGHLAND COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
FEBRUARY 10, 2011