



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups – June 30, 2002.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types – For the Fiscal Year Ended June 30, 2002.....	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types - For the Fiscal Year Ended June 30, 2002.....	10
Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types – For the Fiscal Year Ended June 30, 2002.....	12
Statement of Revenues, Expenses, and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types – - For the Fiscal Year Ended June 30, 2002.....	14
Statement of Cash Flows – All Proprietary Fund Types - For the Fiscal Year Ended June 30, 2002.....	16
Notes to the General Purpose Financial Statements	17
Schedule of Federal Awards Expenditures.....	49
Notes to Schedule of Federal Awards Expenditures	50
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	51
Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings.....	55
Schedule of Prior Audit Findings.....	59

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
P.O. Box 515
Lynchburg, Ohio 45142

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lynchburg-Clay Local School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 11, 2002

This page intentionally left blank.

Lynchburg Clay Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,900,435	\$434,527	\$407,267	\$435,226
Receivables:				
Taxes	1,352,539	33,290	261,014	0
Intergovernmental	0	8,756	0	0
Interest	39,621	0	0	0
Interfund Receivable	273,648	0	0	0
Prepaid Items	29,866	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	102,210	0	0	0
Cash and Cash Equivalents with Escrow Agents	0	0	0	32,485
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service for Retirement of General Obligations	0	0	0	0
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0
 Total Assets and Other Debits	 <u>\$5,698,319</u>	 <u>\$476,573</u>	 <u>\$668,281</u>	 <u>\$467,711</u>

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$574	\$359,790	\$36,753	\$0	\$0	\$5,574,572
0	0	0	0	0	1,646,843
0	0	0	0	0	8,756
0	136	0	0	0	39,757
0	0	0	0	0	273,648
406	0	0	0	0	30,272
0	0	0	0	0	102,210
0	0	0	0	0	32,485
8,642	0	0	0	0	8,642
1,598	0	0	0	0	1,598
248,019	0	0	27,862,189	0	28,110,208
0	0	0	0	427,835	427,835
0	0	0	0	2,177,354	2,177,354
<u>\$259,239</u>	<u>\$359,926</u>	<u>\$36,753</u>	<u>\$27,862,189</u>	<u>\$2,605,189</u>	<u>\$38,434,180</u>

(continued)

Lynchburg Clay Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$11,356	\$0	\$0	\$3,100
Contracts Payable	0	0	0	30,636
Accrued Wages and Benefits	528,915	29,414	0	0
Compensated Absences Payable	53,380	357	0	0
Special Termination Benefits Payable	5,818	0	0	0
Retainage Payable	0	0	0	82,139
Interfund Payable	0	5,596	0	2,949
Intergovernmental Payable	118,181	6,525	0	0
Deferred Revenue	1,287,180	39,423	240,446	0
Undistributed Monies	0	0	0	0
Claims Payable	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Energy Conservation Notes Payable	0	0	0	0
Total Liabilities	2,004,830	81,315	240,446	118,824
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved (Deficit)	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	206,606	64,364	0	14,812
Reserved for Property Taxes	104,980	2,623	20,568	0
Reserved for Budget Stabilization	30,409	0	0	0
Reserved for School Bus Purchases	71,801	0	0	0
Unreserved:				
Undesignated	3,279,693	328,271	407,267	334,075
Total Fund Equity (Deficit) and Other Credits	3,693,489	395,258	427,835	348,887
Total Liabilities, Fund Equity and Other Credits	\$5,698,319	\$476,573	\$668,281	\$467,711

See accompanying notes to the general purpose financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$0	\$0	\$0	\$0	\$14,456
0	0	0	0	0	30,636
28,183	0	0	0	0	586,512
16,338	0	0	0	378,903	448,978
0	0	0	0	1,484	7,302
0	0	0	0	0	82,139
265,103	0	0	0	0	273,648
12,454	108,840	0	0	53,174	299,174
0	0	0	0	0	1,567,049
0	0	36,753	0	0	36,753
0	148,217	0	0	0	148,217
0	0	0	0	54,128	54,128
0	0	0	0	2,105,000	2,105,000
0	0	0	0	12,500	12,500
<u>322,078</u>	<u>257,057</u>	<u>36,753</u>	<u>0</u>	<u>2,605,189</u>	<u>5,666,492</u>
0	0	0	27,862,189	0	27,862,189
358,627	0	0	0	0	358,627
(421,466)	102,869	0	0	0	(318,597)
0	0	0	0	0	285,782
0	0	0	0	0	128,171
0	0	0	0	0	30,409
0	0	0	0	0	71,801
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,349,306</u>
<u>(62,839)</u>	<u>102,869</u>	<u>0</u>	<u>27,862,189</u>	<u>0</u>	<u>32,767,688</u>
<u>\$259,239</u>	<u>\$359,926</u>	<u>\$36,753</u>	<u>\$27,862,189</u>	<u>\$2,605,189</u>	<u>\$38,434,180</u>

Lynchburg Clay Local School District
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
<u>Revenues:</u>					
Property Taxes	\$1,445,326	\$35,498	\$278,269	\$0	\$1,759,093
Intergovernmental	6,180,446	421,553	32,582	1,044,452	7,679,033
Investment Income	211,003	0	0	10,379	221,382
Tuition and Fees	62,718	3,712	0	0	66,430
Rent	4,075	0	0	0	4,075
Extracurricular Activities	0	66,329	0	0	66,329
Gifts and Donations	2,956	5,006	0	1,000	8,962
Miscellaneous	14,143	20,878	0	5,270	40,291
Total Revenues	7,920,667	552,976	310,851	1,061,101	9,845,595
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	3,203,220	130,525	0	115,293	3,449,038
Special	333,734	175,685	0	0	509,419
Vocational	178,153	0	0	346	178,499
Adult/Continuing	4,491	0	0	0	4,491
Support Services:					
Pupils	161,593	29,784	0	236,277	427,654
Instructional Staff	275,169	40,727	0	779	316,675
Board of Education	19,261	0	0	0	19,261
Administration	891,503	8,210	0	0	899,713
Fiscal	289,534	3,541	7,429	2,055	302,559
Business	30,313	0	0	0	30,313
Operation and Maintenance of Plant	817,917	26,798	0	21,052	865,767
Pupil Transportation	698,988	0	0	0	698,988
Central	6,481	6,661	0	7,676	20,818
Non-Instructional Services	7,346	2,590	0	3,100	13,036
Extracurricular Activities	84,072	57,803	0	0	141,875
Capital Outlay	63,822	0	0	2,345,776	2,409,598
Debt Service:					
Principal Retirement	10,256	0	82,500	0	92,756
Interest and Fiscal Charges	4,361	0	107,498	0	111,859
Total Expenditures	7,080,214	482,324	197,427	2,732,354	10,492,319
Excess of Revenues Over (Under) Expenditures	840,453	70,652	113,424	(1,671,253)	(646,724)
<u>Other Financing Sources (Uses):</u>					
Proceeds from Sale of Fixed Assets	14,863	0	0	43,911	58,774
Inception of Capital Lease	33,720	0	0	0	33,720
Operating Transfers In	0	0	0	490,907	490,907
Operating Transfers Out	(490,907)	0	0	0	(490,907)
Total Other Financing Sources (Uses)	(442,324)	0	0	534,818	92,494
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	398,129	70,652	113,424	(1,136,435)	(554,230)
Fund Balances at Beginning of Year	3,295,360	324,606	314,411	1,485,322	5,419,699
Fund Balances at End of Year	<u>\$3,693,489</u>	<u>\$395,258</u>	<u>\$427,835</u>	<u>\$348,887</u>	<u>\$4,865,469</u>

See accompanying notes to the general purpose financial statements

This page intentionally left blank.

Lynchburg Clay Local School District
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Property Taxes	\$1,277,278	\$1,394,204	\$116,926	\$31,088	\$34,221	\$3,133
Intergovernmental	6,027,655	6,185,122	157,467	425,180	421,553	(3,627)
Investment Income	100,000	205,086	105,086	0	0	0
Tuition and Fees	56,850	62,718	5,868	910	3,712	2,802
Rent	50	4,075	4,025	0	0	0
Extracurricular Activities	0	0	0	61,489	65,003	3,514
Gifts and Donations	2,950	2,956	6	4,850	5,006	156
Miscellaneous	10,895	559	(10,336)	9,898	19,928	10,030
Total Revenues	7,475,678	7,854,720	379,042	533,415	549,423	16,008
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	3,739,780	3,248,708	491,072	218,770	168,329	50,441
Special	387,731	335,902	51,829	223,382	177,872	45,510
Vocational	216,504	212,047	4,457	0	0	0
Adult/Continuing	4,973	4,880	93	0	0	0
Support Services:						
Pupils	335,861	232,576	103,285	48,603	29,191	19,412
Instructional Staff	282,416	278,877	3,539	85,137	39,913	45,224
Board of Education	30,647	16,198	14,449	0	0	0
Administration	1,241,264	915,047	326,217	9,172	8,503	669
Fiscal	317,755	293,278	24,477	5,008	3,541	1,467
Business	59,293	30,502	28,791	0	0	0
Operation and Maintenance of Plant	1,590,190	861,220	728,970	52,861	42,798	10,063
Pupil Transportation	980,430	761,307	219,123	0	0	0
Central	9,000	6,481	2,519	10,440	6,661	3,779
Non-Instructional Services	9,018	8,579	439	3,252	2,940	312
Extracurricular Activities	132,553	82,774	49,779	73,668	62,887	10,781
Capital Outlay	133,858	31,333	102,525	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	9,471,273	7,319,709	2,151,564	730,293	542,635	187,658
Excess of Revenues Over (Under) Expenditures	(1,995,595)	535,011	2,530,606	(196,878)	6,788	203,666
<u>Other Financing Sources (Uses):</u>						
Proceeds from Sale of Fixed Assets	14,500	14,863	363	0	0	0
Refund of Prior Year Expenditures	0	13,584	13,584	950	950	0
Refund of Prior Year Receipts	(1,075)	(881)	194	0	0	0
Advances In	0	27,529	27,529	33,125	33,125	0
Advances Out	(115,001)	(114,125)	876	(32,927)	(27,529)	5,398
Operating Transfers In	0	0	0	1,343	1,326	(17)
Operating Transfers Out	(560,000)	(490,907)	69,093	(5,007)	0	5,007
Total Other Financing Sources (Uses)	(661,576)	(549,937)	111,639	(2,516)	7,872	10,388
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,657,171)	(14,926)	2,642,245	(199,394)	14,660	214,054
Fund Balances at Beginning of Year	3,501,964	3,501,964	0	343,157	343,157	0
Prior Year Encumbrances Appropriated	279,859	279,859	0	12,336	12,336	0
Fund Balances at End of Year	\$1,124,652	\$3,766,897	\$2,642,245	\$156,099	\$370,153	\$214,054

See accompanying notes to the general purpose financial statements.

Debt Service Fund			Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$266,933	\$268,258	\$1,325	\$0	\$0	\$0	\$1,575,299	\$1,696,683	\$121,384
31,697	32,582	885	1,010,389	1,089,452	79,063	7,494,921	7,728,709	233,788
0	0	0	2,500	10,379	7,879	102,500	215,465	112,965
0	0	0	0	0	0	57,760	66,430	8,670
0	0	0	0	0	0	50	4,075	4,025
0	0	0	0	0	0	61,489	65,003	3,514
0	0	0	0	1,000	1,000	7,800	8,962	1,162
0	0	0	0	4,698	4,698	20,793	25,185	4,392
<u>298,630</u>	<u>300,840</u>	<u>2,210</u>	<u>1,012,889</u>	<u>1,105,529</u>	<u>92,640</u>	<u>9,320,612</u>	<u>9,810,512</u>	<u>489,900</u>
0	0	0	116,155	115,293	862	4,074,705	3,532,330	542,375
0	0	0	0	0	0	611,113	513,774	97,339
0	0	0	1,546	1,546	0	218,050	213,593	4,457
0	0	0	0	0	0	4,973	4,880	93
0	0	0	241,427	241,427	0	625,891	503,194	122,697
0	0	0	779	779	0	368,332	319,569	48,763
0	0	0	0	0	0	30,647	16,198	14,449
0	0	0	0	0	0	1,250,436	923,550	326,886
7,476	7,429	47	2,055	2,055	0	332,294	306,303	25,991
0	0	0	0	0	0	59,293	30,502	28,791
0	0	0	64,957	21,052	43,905	1,708,008	925,070	782,938
0	0	0	0	0	0	980,430	761,307	219,123
0	0	0	7,676	7,676	0	27,116	20,818	6,298
0	0	0	0	0	0	12,270	11,519	751
0	0	0	0	0	0	206,221	145,661	60,560
0	0	0	2,410,686	2,374,163	36,523	2,544,544	2,405,496	139,048
82,500	82,500	0	0	0	0	82,500	82,500	0
107,500	107,498	2	0	0	0	107,500	107,498	2
<u>197,476</u>	<u>197,427</u>	<u>49</u>	<u>2,845,281</u>	<u>2,763,991</u>	<u>81,290</u>	<u>13,244,323</u>	<u>10,823,762</u>	<u>2,420,561</u>
101,154	103,413	2,259	(1,832,392)	(1,658,462)	173,930	(3,923,711)	(1,013,250)	2,910,461
0	0	0	43,905	43,911	6	58,405	58,774	369
0	0	0	0	572	572	950	15,106	14,156
0	0	0	0	0	0	(1,075)	(881)	194
0	0	0	0	0	0	33,125	60,654	27,529
0	0	0	(2,578)	0	2,578	(150,506)	(141,654)	8,852
0	0	0	490,252	490,907	655	491,595	492,233	638
0	0	0	0	0	0	(565,007)	(490,907)	74,100
<u>0</u>	<u>0</u>	<u>0</u>	<u>531,579</u>	<u>535,390</u>	<u>3,811</u>	<u>(132,513)</u>	<u>(6,675)</u>	<u>125,838</u>
101,154	103,413	2,259	(1,300,813)	(1,123,072)	177,741	(4,056,224)	(1,019,925)	3,036,299
303,854	303,854	0	1,432,344	1,432,344	0	5,581,319	5,581,319	0
0	0	0	110,042	110,042	0	402,237	402,237	0
<u>\$405,008</u>	<u>\$407,267</u>	<u>\$2,259</u>	<u>\$241,573</u>	<u>\$419,314</u>	<u>\$177,741</u>	<u>\$1,927,332</u>	<u>\$4,963,631</u>	<u>\$3,036,299</u>

Lynchburg Clay Local School District
Statement of Revenues,
Expenses and Changes in Fund Equity
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2002

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
<u>Operating Revenues:</u>			
Sales	\$197,540	\$0	\$197,540
Charges for Services	0	776,688	776,688
Other Revenues	2,147	0	2,147
Total Operating Revenues	<u>199,687</u>	<u>776,688</u>	<u>976,375</u>
<u>Operating Expenses:</u>			
Salaries	142,991	0	142,991
Fringe Benefits	65,040	0	65,040
Purchased Services	2,436	5,417	7,853
Materials and Supplies	26,420	0	26,420
Cost of Sales	155,375	0	155,375
Claims	0	800,343	800,343
Other	1,314	0	1,314
Total Operating Expenses	<u>393,576</u>	<u>805,760</u>	<u>1,199,336</u>
Operating Loss	<u>(193,889)</u>	<u>(29,072)</u>	<u>(222,961)</u>
<u>Non-Operating Revenues/(Expenses):</u>			
Investment Income	0	3,311	3,311
Federal Donated Commodities	23,586	0	23,586
Federal and State Subsidies	90,222	0	90,222
Loss on Disposal of Fixed Assets	(1,187)	0	(1,187)
Other	2,169	0	2,169
Total Non-Operating Revenues (Expenses)	<u>114,790</u>	<u>3,311</u>	<u>118,101</u>
Net Loss	(79,099)	(25,761)	(104,860)
Retained Earnings (Deficit) at Beginning of Year (Restated - Note 19)	<u>(342,367)</u>	<u>128,630</u>	<u>(213,737)</u>
Retained Earnings (Deficit) at End of Year	<u>(421,466)</u>	<u>102,869</u>	<u>(318,597)</u>
Contributed Capital at Beginning of Year	368,064	0	368,064
Less: Depreciation on Fixed Assets Acquired by Contributed Capital	<u>(9,437)</u>	<u>0</u>	<u>(9,437)</u>
Contributed Capital at End of Year	<u>358,627</u>	<u>0</u>	<u>358,627</u>
Total Fund Equity (Deficit) at End of Year	<u><u>(\$62,839)</u></u>	<u><u>\$102,869</u></u>	<u><u>\$40,030</u></u>

See accompanying notes to the general purpose financial statements

This page intentionally left blank.

*Lynchburg-Clay Local School District
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2002*

	Enterprise		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	\$197,540	\$197,540	\$0
Investment Income	0	0	0
Charges for Services	0	0	0
Federal and State Subsidies	90,222	90,222	0
Other Revenues	2,147	2,147	0
Total Revenues	289,909	289,909	0
<u>Expenses:</u>			
Salaries	140,796	140,796	0
Fringe Benefits	63,073	63,073	0
Purchased Services	2,436	2,436	0
Materials and Supplies	163,087	163,026	61
Capital Outlay	200	200	0
Other	1,314	1,314	0
Total Expenses	370,906	370,845	61
Excess of Revenues Over (Under) Expenses	(80,997)	(80,936)	61
Advances In	81,000	81,000	0
Excess of Revenues Over (Under) Expenses and Advances	3	64	61
Fund Equity at Beginning of Year	(3)	(3)	0
Prior Year Encumbrances Appropriated	0	0	0
Fund Equity at End of Year	\$0	\$61	\$61

(continued)

Lynchburg-Clay Local School District
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2002
(continued)

	Internal Service			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Sales	\$0	\$0	\$0	\$197,540	\$197,540	\$0
Investment Income	3,000	3,282	282	3,000	3,282	282
Charges for Services	717,000	776,688	59,688	717,000	776,688	59,688
Federal and State Subsidies	0	0	0	90,222	90,222	0
Other Revenues	0	0	0	2,147	2,147	0
Total Revenues	720,000	779,970	59,970	1,009,909	1,069,879	59,970
<u>Expenses:</u>						
Salaries	0	0	0	140,796	140,796	0
Fringe Benefits	0	0	0	63,073	63,073	0
Purchased Services	0	0	0	2,436	2,436	0
Materials and Supplies	0	0	0	163,087	163,026	61
Capital Outlay	0	0	0	200	200	0
Other	910,810	907,673	3,137	912,124	908,987	3,137
Total Expenses	910,810	907,673	3,137	1,281,716	1,278,518	3,198
Excess of Revenues Over (Under) Expenses	(190,810)	(127,703)	63,107	(271,807)	(208,639)	63,168
Advances In	0	0	0	81,000	81,000	0
Excess of Revenues Over (Under) Expenses and Advances	(190,810)	(127,703)	63,107	(190,807)	(127,639)	63,168
Fund Equity at Beginning of Year	478,973	478,973	0	478,970	478,970	0
Prior Year Encumbrances Appropriated	7,083	7,083	0	7,083	7,083	0
Fund Equity at End of Year	\$295,246	\$358,353	\$63,107	\$295,246	\$358,414	\$63,168

See accompanying notes to the general purpose financial statements

*Lynchburg Clay Local School District
Statement of Cash Flows
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2002*

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$197,540	\$0	\$197,540
Cash Received from Quasi-External Transactions With Other Funds	0	776,688	776,688
Cash Received from Other Operating Sources	2,147	0	2,147
Cash Payments to Suppliers for Goods and Services	(166,043)	(5,417)	(171,460)
Cash Payments to Employees for Services	(140,796)	0	(140,796)
Cash Payments for Employee Benefits	(63,073)	0	(63,073)
Cash Payments for Claims	0	(786,926)	(786,926)
Net Cash Used for Operating Activities	<u>(170,225)</u>	<u>(15,655)</u>	<u>(185,880)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Short-Term Borrowing from Other Governments	0	108,840	108,840
Repayment of Short-Term Borrowing from Other Governments	0	(222,733)	(222,733)
Operating Grants Received	90,222	0	90,222
Short-Term Loans from Other Funds	81,000	0	81,000
Net Cash Provided by (Used For) Noncapital Financing Activities	<u>171,222</u>	<u>(113,893)</u>	<u>57,329</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Payments for Capital Acquisitions	<u>(423)</u>	<u>0</u>	<u>(423)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest on Investments	<u>0</u>	<u>3,282</u>	<u>3,282</u>
Net Increase (Decrease) in Cash and Cash Equivalents	574	(126,266)	(125,692)
Cash and Cash Equivalents at Beginning of Year	<u>0</u>	<u>486,056</u>	<u>486,056</u>
Cash and Cash Equivalents at End of Year	<u><u>\$574</u></u>	<u><u>\$359,790</u></u>	<u><u>\$360,364</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used For Operating Activities:</u>			
Operating Loss	<u>(\$193,889)</u>	<u>(\$29,072)</u>	<u>(\$222,961)</u>
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>			
Donated Commodities Used During Year	21,385	0	21,385
<u>Changes in Assets and Liabilities:</u>			
Increase in Inventory Held for Resale	(957)	0	(957)
Increase in Materials and Supplies Inventory	(520)	0	(520)
Increase in Prepaid Items	(406)	0	(406)
Increase in Accrued Wages and Benefits	300	0	300
Increase in Compensated Absences Payable	1,895	0	1,895
Increase in Intergovernmental Payable	1,967	0	1,967
Increase in Claims Payable	0	13,417	13,417
Total Adjustments	<u>23,664</u>	<u>13,417</u>	<u>37,081</u>
Net Cash Used for Operating Activities	<u><u>(\$170,225)</u></u>	<u><u>(\$15,655)</u></u>	<u><u>(\$185,880)</u></u>

Noncash Transactions:

During fiscal year 2002, the Food Service Enterprise Fund received \$23,586 in donated commodities.

See accompanying notes to the general purpose financial statements

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 113 square miles. It is located in Highland, Clinton and Brown Counties, and includes all of the Villages of Lynchburg, Buford, and Dodson and portions of Hamer, Union and White Oak Townships. It is staffed by 56 non-certificated employees, 77 certificated personnel and 8 administrative employees who provide services to 1,322 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, one claims servicing pool, and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, the Ross County School Employees Insurance Consortium, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 14 and 15 to the general purpose financial statements.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The following are the School District's governmental fund types:

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.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

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.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of year-end.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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 5) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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, grants and interest.

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations by fund cannot exceed estimated resources, as certified.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been given authority to further allocate appropriations to functions and objects within each fund.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Highland County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the year, including all supplemental appropriations. Formal budgetary integration is employed by the Board of Education as a management control device during the year for all funds at the function level, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The School District also utilizes an escrow agent to hold retainage on construction contracts. The balances in these accounts are presented on the financial statements as "Restricted Assets: Cash and Cash Equivalents with Escrow Agents".

The School District participates in a claims servicing pool that pays employee health insurance claims on the School District's behalf. The balance of the School District's funds held by the claims administrator and the fiscal agent at June 30, 2002 is presented as "Cash and Cash Equivalents with Fiscal Agents" on the balance sheet.

During fiscal year 2002, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Bonds, and Federal National Mortgage Association Bonds.

Investments are reported at fair value which is based on quoted market prices. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

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 2002 amounted to \$211,003, which includes \$68,110 assigned from other School District funds.

For purposes of the statement of cash flows, the Proprietary funds' portion of pooled cash and cash equivalents is considered to be liquid because the proprietary fund portion of the pool can be accessed without prior notice or penalty.

E. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated and purchased food held for resale and supplies, and are expensed when consumed.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars for all assets other than audio visual equipment. All audio visual equipment is capitalized regardless of value. The School District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are depreciated using the straight-line method over the following useful lives:

Land Improvements	5 years
Buildings	50 years
Building Improvements	20 years
Furniture, Fixtures and Equipment	15 years
Vehicles	5 - 10 years
Textbooks and Library Books	6 years

Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of 15 years.

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables".

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have used current available financial resources. Leases, bonds and long-term notes are reported as a liability of the general long-term obligations account group until due.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts allowed by statute to be set-aside by the School District for budget stabilization and money held by an escrow agent as retainage on construction contracts. Restricted assets also include unexpended revenues restricted for school bus purchases. See Note 16 for additional information regarding set-asides.

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization and school 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 is money required by State statute to be set aside to protect against cyclical changes in revenues and expenditures.

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with resources contributed from other governments is expensed and closed to contributed capital at fiscal year end. Capital contributions received from other governments and private sources after fiscal year 2000 are recorded as revenue and reported as retained earnings. Capital contributions from other funds are still reported as additions to contributed capital.

O. 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.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned “Totals - (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$398,129	\$70,652	\$113,424	(\$1,136,435)
Adjustments:				
Revenue Accruals	(72,750)	(1,277)	(10,011)	45,000
Net Increase in Fair Market Value of Investments	(13,333)	0	0	0
Expenditure Accruals	(22,521)	4,063	0	(15,725)
Encumbrances	(217,855)	(64,374)	0	(15,912)
Advances	(86,596)	5,596	0	0
Budget Basis	<u><u>(\$14,926)</u></u>	<u><u>\$14,660</u></u>	<u><u>\$103,413</u></u>	<u><u>(\$1,123,072)</u></u>

Net Income (Loss)/Excess of Revenues
Over (Under) Expenses and Advances
All Proprietary Fund Types

	<u>Enterprise</u>	<u>Internal Service</u>
GAAP Basis	(\$79,099)	(\$25,761)
Adjustments:		
Revenue Accruals	(2,169)	(29)
Federal Donated Commodities	(2,201)	0
Expense Accruals	740	(100,476)
Prepays	406	0
Inventory Held for Resale	957	0
Materials and Supplies Inventory	520	0
Capital Outlay	423	0
Encumbrances	(513)	(1,437)
Advances	81,000	0
Budget Basis	<u><u>\$64</u></u>	<u><u>(\$127,703)</u></u>

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in divisions (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$661,117 and the bank balance was \$920,703. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$720,703 was uninsured and uncollateralized. Although all statutory requirements for the deposit of the money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

	<u>Category 2</u>	<u>Fair Value</u>
STAR Ohio	\$0	\$147,522
Repurchase Agreements	1,688,118	1,688,118
Federal Home Loan Mortgage Corporation Bonds	502,040	502,040
Federal Home Loan Bank Bonds	1,007,810	1,007,810
Federal National Mortgage Association Bonds	1,702,660	1,702,660
Total Investments	<u>\$4,900,628</u>	<u>\$5,048,150</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in *GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting"*.

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$5,709,267	\$0
Investments:		
STAR Ohio	(147,522)	147,522
Repurchase Agreements	(1,688,118)	1,688,118
Federal Home Loan Mortgage Corporation Bonds	(502,040)	502,040
Federal Home Loan Bank Bonds	(1,007,810)	1,007,810
Federal National Mortgage Association Bonds	(1,702,660)	1,702,660
GASB Statement No. 3	<u>\$661,117</u>	<u>\$5,048,150</u>

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Tangible personal property taxes 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.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$60,730,300	88.54%	\$62,281,850	90.10%
Public Utility	3,943,270	5.75%	3,009,530	4.35%
Tangible Personal Property	3,915,570	5.71%	3,834,700	5.55%
Total Assessed Value	<u>\$68,589,140</u>	<u>100.00%</u>	<u>\$69,126,080</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$29.92		 \$29.92	

The School District receives property taxes from Highland, Clinton, and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2002 was \$104,980 for the general fund, \$2,623 for the classroom facilities maintenance special revenue fund and \$20,568 in the debt service fund. All amounts are recognized as revenue in their respective funds.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, intergovernmental grants, interest, and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 6 - RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

Fund Type/Fund	Amount
Special Revenue Funds:	
Hopewell Autism Grant	\$6,405
Drug Free Schools	911
Title VI-B	1,440
Total All Special Revenue Funds	\$8,756

NOTE 7 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Restated Balance at 6/30/01	Additions	Deductions	Balance at 6/30/02
Land and Improvements	\$2,481,004	\$0	\$2,100	\$2,478,904
Buildings and Improvements	23,040,833	2,243,427	110,540	25,173,720
Furniture, Fixtures and Equipment	1,971,380	204,918	210,652	1,965,646
Vehicles	1,112,853	0	92,785	1,020,068
Textbooks and Library Books	582,732	29,684	10,367	602,049
Construction in Progress	2,228,640	0	2,228,640	0
Totals	\$31,417,442	\$2,478,029	\$2,655,084	31,240,387
Accumulated Depreciation				(3,378,198)
Total General Fixed Assets				\$27,862,189

A summary of the enterprise fund's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$304,589
Less Accumulate Depreciation	(56,570)
Net Fixed Assets	\$248,019

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Indiana Insurance for property insurance and with the Ohio School Plan for fleet insurance, liability insurance, and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents - at replacement cost (\$1,000 deductible) (\$5,000 building, \$250 contents deductible)	\$24,443,500
---	--------------

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 15.) The types and amounts of coverage provided by the Ohio School Plan are as follows:

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

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 8 - RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been a significant increase in coverage from the prior year due to the completion of construction activities.

For fiscal year 2002, the School District participated in the Ohio School Boards Association 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool, consisting of sixteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent, who in turn pays the claims on the School District's behalf. The claims liability of \$148,217 reported in the internal service fund at June 30, 2002 is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30 "Risk Financing Omnibus"*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2001	\$121,101	\$794,734	\$781,035	\$134,800
2002	134,800	800,343	786,926	148,217

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$72,186, \$35,693, and \$43,098, respectively; 57.88 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$30,401 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$320,050, \$302,409, and \$180,008, respectively; 83.49 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$52,833 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, five Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$151,603 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$122,600.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 52 days.

B. Special Termination Benefits

The School District offers an Early Notice of Retirement Incentive program to all employees who are eligible to retire from either SERS or STRS. The employees who give written notice of the intended retirement date on or before March 1st 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 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 upon proof of retirement from SERS or STRS.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 11 - EMPLOYEE BENEFITS (Continued)

C. Insurance Benefits

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

NOTE 12 - CAPITAL LEASES

During fiscal year 2002, and in prior years, the School District entered into lease agreements for copiers. The terms of each agreement provide an option to purchase the equipment. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13 "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the General Purpose Financial Statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$65,698, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 totaled \$10,256.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending June 30,	GLTDAG
2003	\$15,986
2004	15,986
2005	15,986
2006	14,040
2007	1,366
Total	63,364
Less: Amount Representing Interest	(9,236)
Present Value of Net Minimum Lease Payments	\$54,128

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
<u>General Obligation Bonds:</u>				
1998 School Improvement Bonds, 3.8%	\$2,175,000	\$0	\$70,000	\$2,105,000
<u>Other Long-Term Obligations:</u>				
1992 Energy Conservation Notes 7.75%	25,000	0	12,500	12,500
Capital Leases	30,664	33,720	10,256	54,128
Pension Obligation	53,301	53,174	53,301	53,174
Compensated Absences	357,231	21,672	0	378,903
Special Termination Benefits	0	1,484	0	1,484
Total Long-Term Obligations	<u>\$2,641,196</u>	<u>\$110,050</u>	<u>\$146,057</u>	<u>\$2,605,189</u>

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

Energy Conservation Notes - On June 18, 1992, Lynchburg Clay Local School District issued \$134,953 in unvoted general obligation notes for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2003. The notes will be retired from the debt service fund.

The capital lease will be paid from the general fund. Compensated absences and the pension obligation will be paid from the funds from which the employees' salaries are paid.

The District's overall legal debt margin was \$4,544,182 with an unvoted debt margin of \$69,126 and, an Energy Conservation debt margin of 609,035 at June 30, 2002.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the school improvement bonds and energy conservation notes outstanding at June 30, 2002, are as follows:

Fiscal year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$82,500	\$103,856	\$186,356
2004	75,000	100,411	175,411
2005	75,000	97,168	172,168
2006	80,000	93,776	173,776
2007	85,000	90,125	175,125
2008-2012	480,000	386,296	866,296
2013-2017	620,000	239,645	859,645
2018-2021	620,000	63,750	683,750
Total	<u>\$2,117,500</u>	<u>\$1,175,027</u>	<u>\$3,292,527</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. South Cental Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$60,824 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

C. Great Oaks Institute of Technology and Career Development

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

NOTE 15 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

A. Ross County School Employees Insurance Consortium

The School District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of sixteen school districts within Ross County and its surrounding area. Medical/surgical, dental, and vision is administered through a third party administrator, Professional Risk Management Company. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the cost of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon who serves as Treasurer, 19463 Pherson Pike, Williamsport, Ohio 43164-9745.

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 15 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

(Continued)

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

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

C. Ohio School Plan

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

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

For fiscal year ending June 30, 2002, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2001	(\$178,552)	\$0	\$30,409
Current Year Set-aside Requirement	175,219	175,219	0
Current Year Offsets	0	(38,372)	0
Qualifying Disbursements	<u>(206,164)</u>	<u>(275,430)</u>	<u>0</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$209,497)</u>	<u>\$0</u>	<u>\$30,409</u>
Set-aside Reserve Balance as of June 30, 2002			<u><u>\$30,409</u></u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount to below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years.

NOTE 17 - ACCOUNTABILITY

At June 30, 2002, the Disadvantaged Pupil Impact Aid, the Summer School Subsidy, and the Title I Special Revenue Funds and the Food Service Enterprise Fund had deficit fund balances/retained earnings of \$85, \$32, \$2,777, and \$421,466, respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur. The School District is currently monitoring the sales in the Food Service Fund to see if an increase in charges is necessary.

NOTE 18 - INTERFUND ACTIVITY

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<u>General Fund</u>	\$273,648	\$0
<u>Special Revenue Fund:</u>		
Hopewell Autism Grant	0	5,596
<u>Capital Projects Fund:</u>		
Vocational Education Equipment	0	2,949
<u>Enterprise Fund:</u>		
Food Service	0	265,103
Total All Funds	<u><u>\$273,648</u></u>	<u><u>\$273,648</u></u>

Lynchburg Clay Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 19 – PRIOR YEAR RESTATEMENTS

For fiscal year 2002, the School District had all of their fixed assets appraised and valued by an appraisal company. The School District also increased the threshold at which they record fixed assets from \$500 to \$1,000. The reappraisal resulted in a change in the balance in the General Fixed Assets Account Group at June 30, 2001 from \$29,205,300 to \$31,417,442. Retained earnings in the Food Service Enterprise Fund changed from a deficit of \$232,523 to a deficit of \$342,367.

NOTE 20 – STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 21 - CONTINGENCIES

A. Grants:

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation:

The School District is now involved in legal proceedings. The School District's management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

NOTE 22 – SUBSEQUENT EVENT

On July 1, 2002, the Ross County School Employees Insurance Consortium changed their third party administrator from Professional Risk Management Company to Klais and Company, Inc.

This page intentionally left blank.

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$23,586	\$0	\$21,385
National School Lunch Program	LL-P4-02 LL-P4-01	10.555	86,632	0	86,632	0
Total Nutrition Cluster			86,632	23,586	86,632	21,385
Total U.S. Department of Agriculture			86,632	23,586	86,632	21,385
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI B) Handicapped	6B-SX-02 6B-SF-02	84.027	104,702	0	76,502	0
Special Education Grants to States (Title VI B) Preschool	PG-S1-02	84.173	3,620	0	0	0
Total Special Education Cluster			108,322	0	76,502	0
Vocational Education - State Grant Program	N/A	84.048	2,118	0	2,118	0
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-02 C1-S1-01	84.010	137,131	0	140,730	0
Innovative Educational Program Strategies	C2-S1-02 C2-S1-01	84.298	6,623	0	743	0
Eisenhower Prof Development State Grant	MS-S1-02 MS-S1-01	84.281	8,200	0	7,395	0
Education Systemic Improvement Grants	G2-S1-01 G2-S2-01 G2-S2-00	84.276	12,552	0	11,064	0
Class Size Reduction	SR-S1-02 CR-S1-01	84.340	41,342	0	35,303	0
Drug-Free Schools Grant	DR-S1-02 DR-S1-01	84.186	4,125	0	5,341	0
School Renovation, IDEA and Technology	AT-S1-02		4,105		4,105	
Total Department of Education			324,518	0	283,301	0
Totals			\$ 411,150	\$ 23,586	\$ 369,933	\$ 21,385

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B- NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
P.O. Box 515
Lynchburg, Ohio 45142

To the Board of Education:

We have audited the financial statements of the Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings at items 2002-10436-001 through 2002-10436-003. We also noted other instances of noncompliance that we have reported to management of the District in a separate letter dated December 11, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10436-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 11, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 11, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Lynchburg-Clay Local School District
Highland County
301 East Pearl Street
P.O. Box 515
Lynchburg, Ohio 45142

Compliance

We have audited the compliance of the 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 are applicable to each of its major federal programs for the year ended June 30, 2002. The Lynchburg-Clay Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the Lynchburg-Clay Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Lynchburg-Clay Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lynchburg-Clay Local School 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 are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 11, 2002

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2002-10436-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D), provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides for two exceptions to the above requirement:

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of amount due upon such contract or order by resolution within thirty (30) days from the receipt of such certificate.

- B. If the amount involved is less than one thousand dollars (\$1,000), the treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

Contrary to the above, of the expenditures tested, 5% had invoice dates before the purchase order dates and 16% did not contain purchase orders, therefore, prior certification could not be determined. Every effort should be made by the District to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending funds.

FINDING NUMBER 2002-10436-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.36, allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. Amended certificates were made throughout the year by the Treasurer and approved by the Board, however, these amendments were not always submitted to the County Auditor or approved by the County Budget Commission. The District's final amended certificate was not filed with the County Auditor or approved by the County Budget Commission until after fiscal year end.

FINDING NUMBER 2002-10436-003

Noncompliance Citation

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law. The District could not locate 16% of the voucher packets including invoices, purchase orders and requisition for the expenditures which were tested. We applied auditing procedures to determine that these expenditures were legitimate.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

This page intentionally left blank.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10436-001	ORC, Section 5705.41(D), Of the expenditures tested 15% had invoice dates before the purchase order dates and 25% did not contain purchase orders.	No	Not Corrected
2001-10436-002	ORC, Section 5705.36, Amended Certificates were made by the Treasurer and approved by the Board, however, these amendments were not submitted to the County Auditor or approved by the County Budget Commission.	No	Not Corrected



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 7, 2003**