



Mary Taylor, CPA
Auditor of State

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

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Food Service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

May 3, 2007

*Lynchburg Clay Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

As management of the Lynchburg Clay Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements to enhance their understanding of the School District's performance.

Financial Highlights

- The assets of the Lynchburg Clay Local School District exceeded its liabilities at June 30, 2006 by \$26,425,054. Of this amount, \$5,135,736 may be used to meet the School District's ongoing financial obligations. The remaining amount represents capital assets net of related debt and net asset amounts restricted for specific purposes.
- The School District's net assets decreased by \$435,532 during this fiscal year's operations.
- General revenues accounted for \$9,125,840 or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$2,153,084 or 19 percent of total revenues of \$11,278,924.
- The School District had \$11,714,456 in expenses related to governmental activities; only \$2,153,084 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest.

Using the Basic Financial Statements

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

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

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For the Fiscal Year Ended June 30, 2006
Unaudited*

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2006?” The *statement of net assets* and the *statement of activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 9. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

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

Proprietary Fund - Proprietary funds use the same basis of accounting as business-type activities. The Internal Service Fund is used to account for the medical, surgical, dental, and vision benefits provided to employees.

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

The School District as a Whole

Recall that the *statement of net assets* provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for fiscal years 2006 and 2005:

(Table 1)
Net Assets

	Governmental Activities		
	2006	(Restated) 2005	Change in Net Assets
Assets			
Current and Other Assets	\$9,943,959	\$9,474,004	\$469,955
Capital Assets	21,945,258	22,696,977	(751,719)
Total Assets	31,889,217	32,170,981	(281,764)
Liabilities			
Long-Term Liabilities	2,205,437	2,326,609	(121,172)
Other Liabilities	3,258,726	2,983,786	274,940
Total Liabilities	5,464,163	5,310,395	153,768
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,137,716	20,793,833	(656,117)
Restricted	1,151,602	1,119,026	32,576
Unrestricted	5,135,736	4,947,727	188,009
Total Net Assets	\$26,425,054	\$26,860,586	(\$435,532)

Table 1 is a comparison of governmental activities as of June 30, 2006 and 2005. Total assets decreased by \$281,764. Equity in Pooled Cash and Cash Equivalents increased \$462,942, due to increases in State and federal funding. Net accumulated depreciation of \$942,222 was offset by additions and deletions of capital assets of \$190,503. Long-term liabilities decreased by \$121,172, primarily due to the payment of long-term debt obligations. Other liabilities increased by \$274,940, due mainly to a decrease in deferred revenue related to State and federal grants.

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

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

(Table 2)
Changes in Net Assets

	Governmental Activities 2006	(Restated) Governmental Activities 2005	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$883,032	\$747,124	\$135,908
Operating Grants, Contributions, and Interest	1,230,740	1,010,358	220,382
Capital Grants and Contributions	39,312	25,368	13,944
Total Program Revenues	<u>2,153,084</u>	<u>1,782,850</u>	<u>370,234</u>
General Revenues:			
Property Taxes	1,690,768	1,820,975	(130,207)
Grants and Entitlements not			
Restricted to Specific Programs	7,174,200	6,957,273	216,927
Unrestricted Investment Earnings	182,461	120,702	61,759
Miscellaneous	78,411	70,349	8,062
Total General Revenues	<u>9,125,840</u>	<u>8,969,299</u>	<u>156,541</u>
Total Revenues	<u>11,278,924</u>	<u>10,752,149</u>	<u>526,775</u>

(Continued)

Lynchburg Clay Local School District
Management's Discussion and Analysis
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(Table 2)
Changes in Net Assets
(Continued)

	Governmental	(Restated) Governmental	Change
	Activities 2006	Activities 2005	
Program Expenses			
Instruction:			
Regular	5,307,656	4,961,626	346,030
Special	931,754	962,931	(31,177)
Vocational	245,585	235,925	9,660
Student Intervention Services	23,125	0	23,125
Support Services:			
Pupils	372,613	331,231	41,382
Instructional Staff	500,954	528,665	(27,711)
Board of Education	30,579	9,674	20,905
Administration	1,077,961	1,010,187	67,774
Fiscal	279,229	316,633	(37,404)
Business	33,112	38,418	(5,306)
Operation and Maintenance of Plant	1,192,639	1,044,213	148,426
Pupil Transportation	880,404	833,095	47,309
Central	14,492	15,636	(1,144)
Operation of Non-Instructional Services:			
Food Services	541,465	494,877	46,588
Other	23,981	3,310	20,671
Extracurricular Activities	164,550	158,186	6,364
Interest and Fiscal Charges	94,357	99,099	(4,742)
Total Expenses	<u>11,714,456</u>	<u>11,043,706</u>	<u>670,750</u>
Decrease in Net Assets	(435,532)	(291,557)	(143,975)
Net Assets at Beginning of Year	<u>26,860,586</u>	<u>27,152,143</u>	<u>(291,557)</u>
Net Assets at End of Year	<u><u>\$26,425,054</u></u>	<u><u>\$26,860,586</u></u>	<u><u>(\$435,532)</u></u>

Charges for services and sales increased \$135,908. This was due mainly to an increase in open enrollment revenues of \$130,566. Also, lunch collections increased by \$48,032 due to the addition of a la carte items.

Property taxes decreased \$130,207. The School District's bond levy millage was reduced in fiscal year 2005, which resulted in a decrease in tax revenue in fiscal year 2006.

Grants and entitlements not restricted to specific programs increased \$216,927. This was due to an increase in parity aid received on the State foundation settlement.

Regular instruction expenses increased \$346,030. This was due mainly to salary increases of \$196,179 and increased staffing. Also, the School Board's share of health insurance costs for fiscal year 2006 increased \$70,000.

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Special instruction expenses decreased \$31,177. These savings resulted from a decrease in special education students in fiscal year 2006.

Instructional staff expenses decreased \$27,711. In fiscal year 2006, a paraprofessional was hired to replace a librarian who resigned in fiscal year 2005. This resulted in savings of \$23,314.

Operation and maintenance of plant expenses increased \$148,426. This was due mainly to increases in repair and supply costs of \$55,209 along with salary and staffing increases. Also, the School District installed larger propane tanks which resulted in the purchase of additional propane.

Pupil transportation expenses increased \$47,309. This was due to increases in diesel fuel costs of \$28,188, along with salary increases.

Food services expenses increased \$46,588. This was due mainly to salary increases and an increase in the School Board's share of health insurance costs.

Governmental Activities

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

(Table 3)
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	(Restated) Total Cost of Services 2005	(Restated) Net Cost of Services 2005
Instruction	\$6,508,120	(\$5,094,297)	\$6,160,482	(\$5,058,161)
Support Services	4,381,983	(4,192,606)	4,127,752	(3,920,300)
Operation of Non-				
Instructional Services	565,446	(109,602)	498,187	(96,850)
Extracurricular Activities	164,550	(70,510)	158,186	(86,446)
Interest and Fiscal Charges	94,357	(94,357)	99,099	(99,099)
Total Expenses	<u>\$11,714,456</u>	<u>(\$9,561,372)</u>	<u>\$11,043,706</u>	<u>(\$9,260,856)</u>

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The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,256,867 and expenditures of \$10,768,109. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$448,306. This was due mainly to an increase in intergovernmental revenues, offset by slight increases in expenditures.

The Debt Service Fund saw a decrease in fund balance of \$10,990 due to the annual debt payments for the year exceeding property tax receipts.

The Food Service Fund had an increase in fund balance of \$7,870.

General Fund - Budget Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 2006, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 20, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amount.

The School District's ending unobligated cash balance was \$765 below the final budgeted amount in the General Fund.

For the General Fund, original budgeted revenues were \$8,965,403 and final budgeted revenues were \$9,971,966, which represents a 11.2 percent increase. This was due to the School District's conservative approach to estimating revenues at the beginning of fiscal year 2006. Final budgeted revenues matched actual budget basis revenues of \$9,971,966, due to the final amended certificate of estimated resources being approved as of the last day of the fiscal year.

Original budgeted expenditures in the General Fund were \$9,460,079 and final budgeted expenditures were \$9,412,168. The actual budget basis expenditures were \$9,412,933, a variance of only \$765 from final budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

The Lynchburg Clay Local School District's investment in capital assets as of June 30, 2006 was \$21,945,258. This investment in capital assets includes land, land improvements, buildings and improvements, furniture and equipment, vehicles and books and educational media. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

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Management's Discussion and Analysis
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(Table 4)
Capital Assets at June 30
(Net of Depreciation)
Governmental Activities

	2006	2005	Change
Land	\$405,668	\$405,668	\$0
Land Improvements	1,557,035	1,615,110	(58,075)
Buildings and Improvements	18,693,120	19,324,239	(631,119)
Furniture and Equipment	958,348	1,044,346	(85,998)
Vehicles	322,713	285,857	36,856
Books and Educational Media	8,374	21,757	(13,383)
Totals	<u>\$21,945,258</u>	<u>\$22,696,977</u>	<u>(\$751,719)</u>

Net capital assets decreased \$751,719 from the prior fiscal year.

For more information on capital assets, refer to the note 9 to the basic financial statements.

Debt

At June 30, 2006 the School District had \$1,805,000 in bonds outstanding, with \$85,000 due within one year. Table 5 summarizes bonds outstanding:

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

	2006	2005
General Obligation Bonds:		
1998 - School Improvement Bonds	<u>\$1,805,000</u>	<u>\$1,885,000</u>

School Improvement Bonds

In July, 1998, the School District issued \$2,330,600 in voted general obligation bonds for construction of a new elementary school, a new high school and renovations to the old high school building to be used as a middle school. The bonds were issued for a twenty-three year period with final maturity in fiscal year 2021.

The School District's voted legal debt margin was \$5,962,376 with an unvoted debt margin of \$78,161 at June 30, 2006.

For more information on debt, refer to the note 15 to the basic financial statements.

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District Challenges for the Future

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

Lynchburg Clay Local School District is heavily dependent on State funding; approximately 71 percent of its funding is received through the State foundation program.

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

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

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

In schools, as in any other business, funding is always a major concern. Since schools are dependent on local and State taxes for a portion of their funding, it is important that the State legislature and governor make school funding a priority. The lack of appropriate State response to the DeRolph school funding lawsuit, the poor local, State and national economy, the various student educational options, the cost of implementing the NCLB, the various student educational options and student enrollment projections all contribute to the difficult task of establishing financial projections for our School District.

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

*Lynchburg Clay Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Contacting the School District's Financial Management

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

Lynchburg Clay Local School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$7,524,230
Cash and Cash Equivalents With Fiscal Agents	191,568
Accrued Interest Receivable	41,937
Accounts Receivable	747
Materials and Supplies Inventory	6,723
Intergovernmental Receivable	167,379
Taxes Receivable	2,011,375
Capital Assets:	
Land	405,668
Depreciable Capital Assets, Net	<u>21,539,590</u>
 <i>Total Assets</i>	 <u>31,889,217</u>
 <u>Liabilities:</u>	
Accounts Payable	88,501
Accrued Wages and Benefits Payable	807,371
Intergovernmental Payable	250,842
Deferred Revenue	1,915,796
Matured Compensated Absences Payable	49,702
Accrued Interest Payable	7,668
Claims Payable	138,846
Long-Term Liabilities:	
Due Within One Year	128,842
Due in More Than One Year	<u>2,076,595</u>
 <i>Total Liabilities</i>	 <u>5,464,163</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	20,137,716
Restricted for:	
Capital Projects	13,806
Debt Service	729,874
Set-Asides	30,409
Other Purposes	377,513
Unrestricted	<u>5,135,736</u>
 <i>Total Net Assets</i>	 <u><u>\$26,425,054</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Governmental Activities	Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$5,307,656	\$531,544	\$112,464	\$13,312	(\$4,650,336)
Special	931,754	6,525	687,824	0	(237,405)
Vocational	245,585	6,120	56,034	0	(183,431)
Student Intervention Services	23,125	0	0	0	(23,125)
Support Services:					
Pupils	372,613	0	50,307	0	(322,306)
Instructional Staff	500,954	0	91,297	0	(409,657)
Board of Education	30,579	0	0	0	(30,579)
Administration	1,077,961	0	8,605	0	(1,069,356)
Fiscal	279,229	0	1,272	0	(277,957)
Business	33,112	0	0	0	(33,112)
Operation and Maintenance of Plant	1,192,639	0	7,342	0	(1,185,297)
Pupil Transportation	880,404	0	25,554	0	(854,850)
Central	14,492	0	5,000	0	(9,492)
Operation of Non-Instructional Services:					
Food Services	541,465	277,502	178,342	0	(85,621)
Other	23,981	0	0	0	(23,981)
Extracurricular Activities	164,550	61,341	6,699	26,000	(70,510)
Interest and Fiscal Charges	94,357	0	0	0	(94,357)
Total Governmental Activities	\$11,714,456	\$883,032	\$1,230,740	\$39,312	(9,561,372)

General Revenues:

Property Taxes Levied for:	
General Purposes	1,506,707
Debt Service	147,939
Capital Outlay	36,122
Grants and Entitlements not	
Restricted to Specific Programs	7,174,200
Unrestricted Investment Earnings	182,461
Miscellaneous	78,411
Total General Revenues	9,125,840
Change in Net Assets	(435,532)
Net Assets at Beginning of Year - Restated (Note 3)	26,860,586
Net Assets at End of Year	\$26,425,054

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
 Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$6,331,150	\$14,215	\$729,094	\$402,535	\$7,476,994
Materials and Supplies Inventory	0	6,723	0	0	6,723
Accrued Interest Receivable	41,937	0	0	0	41,937
Accounts Receivable	747	0	0	0	747
Interfund Receivable	19,438	0	0	0	19,438
Intergovernmental Receivable	0	32,625	0	117,694	150,319
Property Taxes Receivable	1,811,346	0	160,282	39,747	2,011,375
Advances to Other Funds	31,938	0	0	0	31,938
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	30,409	0	0	0	30,409
Total Assets	\$8,266,965	\$53,563	\$889,376	\$559,976	\$9,769,880
<u>Liabilities:</u>					
Accounts Payable	\$72,054	\$73	\$0	\$16,374	\$88,501
Accrued Wages and Benefits Payable	746,965	28,282	0	32,124	807,371
Matured Compensated Absences Payable	49,276	426	0	0	49,702
Interfund Payable	0	0	0	19,438	19,438
Intergovernmental Payable	237,550	8,890	0	4,402	250,842
Advances from Other Funds	0	31,938	0	0	31,938
Deferred Revenue	1,799,308	0	156,512	92,188	2,048,008
Total Liabilities	2,905,153	69,609	156,512	164,526	3,295,800
<u>Fund Balances:</u>					
Reserved for Encumbrances	64,790	0	0	93,847	158,637
Reserved for Advances	31,938	0	0	0	31,938
Reserved for Property Taxes	37,910	0	3,770	918	42,598
Reserved for Budget Stabilization	30,409	0	0	0	30,409
Unreserved:					
Undesignated, Reported in:					
General Fund	5,196,765	0	0	0	5,196,765
Special Revenue Funds (Deficit)	0	(16,046)	0	290,690	274,644
Debt Service Fund	0	0	729,094	0	729,094
Capital Projects Funds	0	0	0	9,995	9,995
Total Fund Balances (Deficit)	5,361,812	(16,046)	732,864	395,450	6,474,080
Total Liabilities and Fund Balances	\$8,266,965	\$53,563	\$889,376	\$559,976	\$9,769,880

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006

Total Governmental Fund Balances \$6,474,080

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

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

Land	405,668	
Other Capital Assets	31,255,727	
Accumulated depreciation	(9,716,137)	
Total capital assets	21,945,258	21,945,258

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	52,981	
Interest	25,872	
Intergovernmental	53,359	
	132,212	132,212

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

86,609

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

Bonds payable	(1,805,000)	
Accrued interest on bonds	(7,668)	
Capital leases	(2,542)	
Compensated absences	(397,895)	
	(2,213,105)	(2,213,105)

Net Assets of Governmental Activities \$26,425,054

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Food Service	Debt Service	All Other Governmental	Total Governmental
<u>Revenues:</u>					
Property Taxes	\$1,509,876	\$0	\$148,251	\$36,202	\$1,694,329
Intergovernmental	7,640,483	178,342	18,756	566,316	8,403,897
Interest	164,399	0	0	0	164,399
Tuition and Fees	539,669	0	0	0	539,669
Rent	4,520	0	0	0	4,520
Extracurricular Activities	0	0	0	61,341	61,341
Gifts and Donations	5,085	0	0	27,714	32,799
Customer Sales and Services	0	277,502	0	0	277,502
Miscellaneous	33,821	1,041	0	43,549	78,411
Total Revenues	9,897,853	456,885	167,007	735,122	11,256,867
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	4,466,422	0	0	173,718	4,640,140
Special	609,212	0	0	271,330	880,542
Vocational	205,248	0	0	1,936	207,184
Student Intervention Services	23,125	0	0	0	23,125
Support Services:					
Pupils	296,666	0	0	51,916	348,582
Instructional Staff	366,526	0	0	94,253	460,779
Board of Education	30,331	0	0	0	30,331
Administration	987,207	0	0	18,212	1,005,419
Fiscal	258,322	0	4,221	2,276	264,819
Business	33,112	0	0	0	33,112
Operation and Maintenance of Plant	1,097,499	3,987	0	74,902	1,176,388
Pupil Transportation	885,182	0	0	333	885,515
Central	6,585	0	0	5,000	11,585
Operation of Non-Instructional Services:					
Food Services	0	445,028	0	0	445,028
Other	2,196	0	0	0	2,196
Extracurricular Activities	102,754	0	0	64,366	167,120
Debt Service:					
Principal Retirement	11,594	0	80,000	0	91,594
Interest and Fiscal Charges	874	0	93,776	0	94,650
Total Expenditures	9,382,855	449,015	177,997	758,242	10,768,109
Excess of Revenues Over (Under) Expenditures	514,998	7,870	(10,990)	(23,120)	488,758
<u>Other Financing Sources (Uses):</u>					
Transfers In	0	0	0	66,692	66,692
Transfers Out	(66,692)	0	0	0	(66,692)
Total Other Financing Sources (Uses)	(66,692)	0	0	66,692	0
Net Change in Fund Balances	448,306	7,870	(10,990)	43,572	488,758
Fund Balances (Deficit) at Beginning of Year	4,913,506	(23,916)	743,854	351,878	5,985,322
Fund Balances (Deficit) at End of Year	\$5,361,812	(\$16,046)	\$732,864	\$395,450	\$6,474,080

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$488,758

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

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	204,870	
Depreciation expense	<u>(956,589)</u>	
Excess of capital outlay under depreciation expense		(751,719)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	(3,561)	
Interest	16,671	
Intergovernmental	<u>7,556</u>	
		20,666

The internal service fund used by management to charge the costs of insurance to individual funds is reported in the entity-wide Statement of Activities (314,702)

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

Bond payments	80,000	
Capital lease payments	<u>15,602</u>	
Total long-term debt repayment		95,602

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

Decrease in accrued interest		293
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences payable		<u>25,570</u>
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Change in Net Assets of Governmental Activities (\$435,532)

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Property Taxes	\$1,775,549	\$1,588,234	\$1,588,234	\$0
Intergovernmental	6,552,447	7,640,483	7,640,483	0
Interest	143,782	167,657	167,657	0
Tuition and Fees	462,660	539,485	539,485	0
Rent	3,876	4,520	4,520	0
Gifts and Donations	4,361	5,085	5,085	0
Miscellaneous	22,728	26,502	26,502	0
<i>Total Revenues</i>	<u>8,965,403</u>	<u>9,971,966</u>	<u>9,971,966</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,427,104	4,476,995	4,477,605	(610)
Special	595,572	596,756	596,756	0
Vocational	208,710	211,721	211,721	0
Student Intervention Services	22,887	23,318	23,318	0
Support Services:				
Pupils	293,416	288,076	288,076	0
Instructional Staff	371,367	373,007	373,007	0
Board of Education	29,947	30,297	30,297	0
Administration	994,734	985,874	985,874	0
Fiscal	277,811	262,415	262,415	0
Business	34,808	33,831	33,831	0
Operation and Maintenance of Plant	1,166,961	1,150,224	1,150,379	(155)
Pupil Transportation	932,840	874,226	874,226	0
Central	6,463	6,585	6,585	0
Operation of Non-Instructional Services:				
Other	2,201	2,196	2,196	0
Extracurricular Activities	95,258	96,647	96,647	0
<i>Total Expenditures</i>	<u>9,460,079</u>	<u>9,412,168</u>	<u>9,412,933</u>	<u>(765)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(494,676)</u>	<u>559,798</u>	<u>559,033</u>	<u>(765)</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	6,756	6,756	6,756	0
Advances In	58,564	58,564	58,564	0
Transfers Out	0	(14,932)	(14,932)	0
Advances Out	0	(43,735)	(43,735)	0
<i>Total Other Financing Sources (Uses)</i>	<u>65,320</u>	<u>6,653</u>	<u>6,653</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(429,356)	566,451	565,686	(765)
<i>Fund Balance at Beginning of Year</i>	5,527,965	5,527,965	5,527,965	0
<i>Prior Year Encumbrances Appropriated</i>	<u>221,743</u>	<u>221,743</u>	<u>221,743</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$5,320,352</u></u>	<u><u>\$6,316,159</u></u>	<u><u>\$6,315,394</u></u>	<u><u>(\$765)</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Food Service Fund
For the Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>				
Intergovernmental	\$151,069	\$151,563	\$151,563	\$0
Customer Sales and Services	276,597	277,502	277,502	0
Miscellaneous	1,037	1,041	1,041	0
<i>Total Revenues</i>	<u>428,703</u>	<u>430,106</u>	<u>430,106</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Operation and Maintenance of Plant	4,300	3,914	3,914	0
Operation of Non-Instructional Services:				
Food Services	451,465	417,682	417,682	0
<i>Total Expenditures</i>	<u>455,765</u>	<u>421,596</u>	<u>421,596</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(27,062)	8,510	8,510	0
<i>Fund Balance at Beginning of Year</i>	5,617	5,617	5,617	0
<i>Prior Year Encumbrances Appropriated</i>	<u>88</u>	<u>88</u>	<u>88</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>(\$21,357)</u></u>	<u><u>\$14,215</u></u>	<u><u>\$14,215</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2006

	<u>Self-Insurance</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$16,827
Cash and Cash Equivalents with Fiscal Agent	191,568
Intergovernmental Receivable	<u>17,060</u>
<i>Total Assets</i>	225,455
<u>Liabilities:</u>	
Claims Payable	<u>138,846</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$86,609</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Self-Insurance
<u>Operating Revenues:</u>	
Charges for Services	\$1,124,020
<u>Operating Expenses:</u>	
Purchased Services	111,583
Claims	1,328,530
	1,440,113
<i>Total Operating Expenses</i>	1,440,113
<i>Operating Loss</i>	(316,093)
<u>Non-Operating Revenues:</u>	
Interest	1,391
	1,391
<i>Change in Net Assets</i>	(314,702)
<i>Net Assets at Beginning of Year</i>	401,311
	401,311
<i>Net Assets at End of Year</i>	\$86,609

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	<u>Self-Insurance</u>
<i>Increase in Cash and Cash Equivalents</i>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Quasi-External Transactions with Other Funds	\$1,124,020
Cash Payments to Suppliers for Goods and Services	(111,583)
Cash Payments for Claims	<u>(1,308,927)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(296,490)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Repayment of Loans from Other Governments	27,116
Short-Term Loans to Other Governments	<u>(17,060)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>10,056</u>
<u>Cash Flows from Investing Activities:</u>	
Interest	<u>1,391</u>
<i>Decrease in Cash and Cash Equivalents</i>	(285,043)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>493,438</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$208,395</u></u>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</i>	
Operating Loss	(\$316,093)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</i>	
Increase in Claims Payable	<u>19,603</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$296,490)</u></u>

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$144,203	\$23,567
<u>Liabilities:</u>		
Undistributed Monies	0	\$23,567
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$144,203	

See accompanying notes to the basic financial statements

Lynchburg Clay Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

	Private Purpose Trust
	Scholarship
<u>Additions:</u>	
Interest	\$4,002
<u>Deductions:</u>	
Payments in Accordance with Trust Agreements	1,000
<i>Change in Net Assets</i>	3,002
<i>Net Assets at Beginning of Year</i>	141,201
<i>Net Assets at End of Year</i>	\$144,203

See accompanying notes to the basic financial statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 113 square miles. It is located in Highland, Clinton and Brown Counties, and includes all of the Villages of Lynchburg, Buford and Dodson and portions of Hamer, Union and White Oak Townships. It is staffed by 66 non-certificated employees, 80 certificated personnel and 7 administrative employees who provide services to 1,364 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, one claims servicing pool, and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Hopewell Special Education Regional Resource Center, the Great Oaks Institute of Technology and Career Development, the Ross County School Employees Insurance Consortium, the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

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

Internal Service Fund – Internal Service Funds account for the financing of services provided by one department or agency to the other departments or agencies of the School District. The Internal Service Fund is used to account for the medical, surgical, dental, and vision benefits provided to employees.

Fiduciary Funds:

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Basis of Accounting

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

Revenues-Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in effect at the time the final appropriations were passed. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year-end in all funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. Cash and Cash Equivalents

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

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, 2006, is presented as "Cash and Cash Equivalents with Fiscal Agents" on the balance sheet.

During fiscal year 2006, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), Federal Home Loan Bank Bonds, Federal Home Loan Bank Step Up Coupon Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal Home Loan Mortgage Corporation Step Up Medium Term Notes, Federal National Mortgage Association Medium Term Notes, negotiable certificates of deposit and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$164,399, which includes \$30,880 assigned from other School District funds.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Transactions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund are amounts required by statute to be set aside by the School District to create a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

N. Fund Balance Reserves

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

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

The government-wide Statement of Net Assets reports \$1,151,602 of restricted net assets, none of which are restricted by enabling legislation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For fiscal year 2006, the School District has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"* and *GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School District's financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School District's financial statements for fiscal year 2006.

B. Restatement of Net Assets

During fiscal year 2005, it was determined that long-term liabilities due within one year and due in more than one year were understated in relation to accruals for compensated absences. This resulted in a restatement of long-term liabilities at June 30, 2005, which had the following effect on the net assets of the School District:

	<u>Governmental Activities</u>
Net Assets, June 30, 2005, as reported	\$27,105,446
Restatement of Long-Term Liabilities	(244,860)
Net Assets, June 30, 2005, as restated	<u><u>\$26,860,586</u></u>

NOTE 4 – COMPLIANCE

The General Fund had actual expenses plus encumbrances in excess of final appropriations for the fiscal year ended June 30, 2006 in the amount of \$765.

The Food Service Enterprise Fund had original appropriations in excess of original estimated resources plus available balances for the fiscal year ended June 30, 2006 in the amount of \$21,357.

The School District will monitor budgetary controls more closely in the future to alleviate such compliance issues.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance		
	General	Food Service
GAAP Basis	\$448,306	\$7,870
Adjustments:		
Revenue Accruals	91,266	(26,779)
Decrease in Fair Market Value of Investments Fiscal Year 2006	(63,012)	0
Decrease in Fair Market Value of Investments Fiscal Year 2005	52,615	0
Expenditure Accruals	79,099	27,419
Encumbrances	(109,177)	0
Advances	14,829	0
Transfers	51,760	0
Budget Basis	\$565,686	\$8,510

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

At June 30, 2006, the School District had "Cash and Cash Equivalents with Fiscal Agents" on the Statement of Net Assets of \$191,568. This is money paid to a claims servicing pool that pays employee health insurance claims on the School District's behalf. The money is held by Westfall Local School District, which is the fiscal agent for several school districts. Since the monies are commingled, no disclosures regarding risk can be disclosed under GASB Statement No. 40. The classification for the Westfall Local School District as a whole can be obtained by writing to Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164-9745.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,442,686 of the School District's bank balance of \$2,756,948 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the bank's agent or trust department, but not in the name of the District. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation (FDIC).

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

Investments

As of June 30, 2006, the School District had the following investments, which are in an internal investment pool:

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$160,675	Average 35 Days
Federal Home Loan Bank Bonds	1,193,655	Less than one year
Federal Home Loan Bank Step Up Coupon Bonds	1,132,097	Less than two years
Federal Home Loan Mortgage Corporation Medium Term Notes	989,595	Less than two years
Federal Home Loan Mortgage Corporation Step Up Medium Term Notes	489,165	Less than one year
Federal National Mortgage Association Medium Term Notes	690,313	Less than one year
Negotiable Certificates of Deposit	140,000	Less than one year
Repurchase Agreement	1,156,953	Less than one year
Total Investments	<u>\$5,952,453</u>	

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 20 percent is invested in Federal Home Loan Bank Bonds, 19 percent is invested in Federal Home Loan Bank Step Up Coupon Bonds, 16 percent is invested in Federal Home Loan Mortgage Corporation Medium Term Notes, 12 percent is invested in Federal National Mortgage Association Medium Term Notes, and eight percent is invested in Federal Home Loan Mortgage Corporation Step Up Medium Term Notes.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES (Continued)

January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland, Clinton and Brown Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$37,910 in the General Fund, \$3,770 in the Debt Service Fund, and \$918 in the Classroom Facilities Fund. The amount available as an advance at June 30, 2005, was \$116,268 in the General Fund, \$11,579 in the Debt Service fund, and \$2,824 in the Classroom Facilities Fund.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES (Continued)

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

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$72,982,560	89.12%	\$74,901,170	91.04%
Public Utility Personal	3,906,660	4.77%	3,903,570	4.74%
General Business Personal	5,001,317	6.11%	3,467,979	4.22%
Total Assessed Value	\$81,890,537	100.00%	\$82,272,719	100.00%
Tax rate per \$1,000 of assessed valuation	\$28.00		\$28.00	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006, consisted of interest, accounts, interfund, intergovernmental grants, and property taxes. The Self-Insurance Internal Service Fund intergovernmental receivable consists of claims payments made on behalf of other members of the Ross County Insurance Consortium using surplus monies of the School District. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs. All receivables will be collected within one year except for Internal Service Fund receivables and property taxes. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. A summary of intergovernmental receivables follows:

	Amount
<u>Governmental Activities:</u>	
Food Service - Federal Lunch Reimbursement	\$32,625
IDEA-B	64,114
Title I Grant	30,976
Drug Free Schools Grant	1,727
Preschool Disability Grant	581
Improving Teacher Quality Grant	19,755
Title VI-R Grant	541
Short-Term Loans to Other Governments	17,060
Total Intergovernmental Receivable	\$167,379

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at 6/30/05	Additions	Deductions	Balance at 6/30/06
<u>Governmental Activities:</u>				
Capital Asset Not Being Depreciated:				
Land	\$405,668	\$0	\$0	\$405,668
Capital Assets Being Depreciated:				
Land Improvements	2,182,378	40,823	0	2,223,201
Buildings and Building Improvements	24,645,208	0	0	24,645,208
Furniture, Fixtures and Equipment	2,503,224	40,298	(14,367)	2,529,155
Vehicles	1,114,443	123,749	0	1,238,192
Books and Educational Media	619,971	0	0	619,971
Total Capital Assets Being Depreciated	31,065,224	204,870	(14,367)	31,255,727
Less Accumulated Depreciation:				
Land Improvements	(567,268)	(98,898)	0	(666,166)
Buildings and Building Improvements	(5,320,969)	(631,119)	0	(5,952,088)
Furniture, Fixtures and Equipment	(1,458,878)	(126,296)	14,367	(1,570,807)
Vehicles	(828,586)	(86,893)	0	(915,479)
Books and Educational Media	(598,214)	(13,383)	0	(611,597)
Total Accumulated Depreciation	(8,773,915)	(956,589) *	14,367	(9,716,137)
Total Capital Assets Being Depreciated, Net	22,291,309	(751,719)	0	21,539,590
Governmental Activities Capital Assets, Net	\$22,696,977	(\$751,719)	\$0	\$21,945,258

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$525,605
Special	54,067
Vocational	26,514
Support Services:	
Pupils	18,759
Instructional Staff	23,700
Administration	76,849
Fiscal	641
Operation and Maintenance of Plant	42,168
Pupil Transportation	88,134
Central	2,907
Operation of Non-Instructional Services:	
Food Services	95,153
Extracurricular Activities	2,092
Total Depreciation Expense	\$956,589

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, 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 (\$5,000 deductible)	\$23,507,561
Commercial Computer Coverage (\$250 deductible)	100,000
Musical Instruments Coverage (\$500 deductible)	45,702

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT (Continued)

The School District, along with other school districts in Ohio, participates in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17). 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

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

NOTE 10 - RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program.

C. Employee Medical, Vision and Dental Benefits

Medical/surgical, 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 \$138,846 reported in the Internal Service Fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$108,685	\$805,596	\$795,038	\$119,243
2006	119,243	1,328,530	1,308,927	138,846

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$156,799, \$134,649, and \$108,522, respectively; 55.36 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$535,219, \$501,157, and \$478,630, respectively; 82.93 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$0 made by the School District and \$8,467 made by the plan members.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$41,171 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$70,566.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

NOTE 13 - EMPLOYEE BENEFITS (Continued)

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 full years' wages by the years of service and a factor rate. The factor rate is .005 for the first year, .0033 for the second year, and .0025 for the third year. Payment is made on June 1 of the year in which the employee retires. During fiscal year 2006, one employee received the special termination benefit in the amount of \$8,056 and was paid out of the General Fund prior to June 30, 2006.

C. Insurance Benefits

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

NOTE 14 - CAPITAL LEASES—LESSEE DISCLOSURE

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

The School District terminated leases during the fiscal year prior to the full retirement of existing leases. Therefore \$4,008 remaining on the old leases was eliminated on the financial statements. Principal payments in fiscal year 2006 totaled \$11,594 in the General Fund.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Copiers	\$36,478
Less: Accumulated Depreciation	(34,228)
Total	\$2,250

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - CAPITAL LEASES—LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal year Ending June 30,	Total Payments
2007	\$1,161
2008	1,159
2009	581
Total	2,901
Less: Amount Representing Interest	(359)
Present Value of Minimum Lease Payments	<u>\$2,542</u>

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Amounts Outstanding 6/30/05	Additions	Deductions	Amounts Outstanding 6/30/06	Amounts Due in One Year
<u>Governmental Activities:</u>					
1998 School Improvement					
Bonds, 3.8%	\$1,885,000	\$0	\$80,000	\$1,805,000	\$85,000
Capital Leases	18,144	0	15,602	2,542	938
Compensated Absences	423,465	18,195	43,765	397,895	42,904
Total Governmental Activities	<u>\$2,326,609</u>	<u>\$18,195</u>	<u>\$139,367</u>	<u>\$2,205,437</u>	<u>\$128,842</u>

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

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

The School District's overall legal debt margin was \$5,962,376 with an unvoted debt margin of \$78,161 at June 30, 2006.

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2006, are as follows:

Fiscal year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$85,000	\$90,125	\$175,125
2008	90,000	86,209	176,209
2009	90,000	82,136	172,136
2010	95,000	77,904	172,904
2011	100,000	72,906	172,906
2012-2016	585,000	272,286	857,286
2017-2021	760,000	98,250	858,250
Total	<u>\$1,805,000</u>	<u>\$779,816</u>	<u>\$2,584,816</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and a representative of the fiscal agent. The School District paid SCOCA \$52,992 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Hopewell Special Education Regional Resource Center

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. 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 Southern Ohio Educational Service Center, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Southern Ohio Educational Service Center acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants. To obtain financial information write to Hopewell at the Southern Ohio Educational Service Center, 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 possesses its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the School District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, Ohio, 45241-1581.

NOTE 17 - 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, Klais and Company. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS
(Continued)

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

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

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

C. Ohio School Plan

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

NOTE 18 - 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.

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

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

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

	Textbooks and Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2005	(\$386,290)	\$0	\$30,409
Current Fiscal Year Set-aside Requirement	184,964	184,964	0
Current Fiscal Year Offsets	0	(42,686)	0
Qualifying Disbursements	(153,351)	(331,024)	0
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$354,677)</u>	<u>\$0</u>	<u>\$30,409</u>
Set-aside Reserve Balance as of June 30, 2006			<u>\$30,409</u>

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

NOTE 19 - INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

Payable	Receivable General Fund
All Other Governmental Funds	<u>\$19,438</u>

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

Lynchburg Clay Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 19 - INTERFUND ACTIVITY (Continued)

B. Interfund Transfers

Transfers made during the fiscal year ended June 30, 2006, were as follows:

Transfer To	<u>Transfer From General Fund</u>
All Other Governmental Funds	<u>\$66,692</u>

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

C. Advances To/From Other Funds

As of June 30, 2006, receivables and payables that resulted from various long-term advances were as follows:

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

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

NOTE 20 - 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, 2006.

B. Litigation

The School District is party to legal proceedings.

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

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>						
Food Distribution Program	N/A	10.550	\$ -	\$28,832	\$ -	\$30,822
Nutrition Cluster:						
National School Breakfast Program	05-PU-05	10.553	30,857	-	30,857	-
	05-PU-06					
National School Lunch Program	LL-P4-06	10.555	113,526	-	113,526	-
	LL-P4-05					
Total Nutrition Cluster			144,383	-	144,383	0
Total U.S. Department of Agriculture			144,383	28,832	144,383	30,822
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education.</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-06	84.027	269,448	-	263,203	-
	6B-SF-05					
Special Education Grants to States (IDEA - PartB) Preschool	PG-S1-06	84.173	5,818	-	6,350	-
Total Special Education Cluster			275,266	-	269,553	-
Comprehensive School Reform Demonstration	RF-S3-04	84.332	32,352	-	31,122	-
Grants to Local Educational Agencies (Disadvantaged Youth)	C1-S1-06	84.010	123,035	-	133,950	-
	C1-S1-05					
Innovative Educational Program	C2-S1-06	84.298	4,848	-	5,553	-
	C2-S1-05					
Technology State Formula Grants	TJ-S1-06	84.318	1,970	-	4,345	-
Improving Teacher Quality State Grants	TR-S1-06	84.367	50,874	-	64,930	-
	TR-S1-05					
Drug-Free Schools Grant	DR-S1-06	84.186	7,060	-	4,836	-
	DR-S1-05					
Total Department of Education			495,405	-	514,289	-
<u>U.S. DEPARTMENT OF MENTAL RETARDATION and DEVELOPMENTAL DISABILITIES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities.</i>						
Community Alternative Fund System (CAFS)	N/A	93.778	15,514	-	15,514	-
State Children's Insurance Program	N/A	93.767	2,942	-	2,942	-
Total Department of Health			18,456	-	18,456	-
Totals			\$ 658,244	\$ 28,832	\$ 677,128	\$ 30,822

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—FOOD DISTRIBUTION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lynchburg-Clay Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 3, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 3, 2007, we reported other matters related to noncompliance we deemed immaterial.

Lynchburg-Clay Local School District
Highland County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

May 3, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Lynchburg-Clay Local School District, Highland County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Lynchburg-Clay Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

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

Mary Taylor, CPA
Auditor of State

May 3, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

LYNCHBURG-CLAY LOCAL SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 24, 2007