

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS**

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011*

**JUDY STAHL-REYNOLDS, TREASURER**





# Dave Yost • Auditor of State

Board of Education  
Lexington Local School District  
103 Clever Lane  
Lexington, Ohio 44904

We have reviewed the *Independent Auditors Report* of the Lexington Local School District, Richland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 to June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

March 13, 2012



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

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December 28, 2011

To the Board of Education  
Lexington Local School District  
103 Clever Lane  
Lexington, Ohio 44904

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lexington Local School District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while, material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in cash financial position, and the respective budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Rea & Associates, Inc.*





**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2011, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are as follows:

- The total net cash assets of the District decreased \$1,022,785 or 44.63 % from fiscal year 2010.
- General cash receipts accounted for \$19,026,596 or 82.25% of total governmental activities cash receipts. Program specific cash receipts accounted for \$4,105,366 or 17.75% of total governmental activities cash receipts.
- The District had \$24,154,747 in cash disbursements related to governmental activities; \$4,105,366 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$19,026,596 were not adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had cash receipts and other financing sources of \$19,682,307 in 2011. The cash disbursements of the general fund, totaled \$20,838,509 in 2011. The general fund's cash balance decreased \$1,156,202 from a restated balance of \$1,770,419 to \$614,217

**Using this Cash Basis Basic Financial Statements (BFS)**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net assets - cash basis and statement of activities - cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is the most significant fund, and the only governmental fund reported as a major fund.

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

The statement of net assets - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2011?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the District's net cash assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets - cash basis and the statement of activities - cash basis, the governmental activities include District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The statement of net assets - cash basis and the statement of activities - cash basis can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund. The analysis of the District's major governmental funds begins on page 9.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, the only difference between the net assets and fund cash balances or changes in net assets and changes in fund cash balances results from the consolidation of the internal service fund with governmental activities on the government-wide financial statements. Cash governmental fund statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-21 of this report.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and an agency fund. The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

***Notes to the Financial Statements***

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-45 of this report.

**Government-Wide Financial Analysis**

Recall that the statement of net assets - cash basis provides the perspective of the District as a whole.

The table below provides a summary of the District's net cash assets at June 30, 2011 and June 30, 2010.

	<b>Net Cash Assets</b>	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 1,266,985	\$ 2,289,770
Cash in segregated accounts	<u>1,925</u>	<u>1,925</u>
Total assets	<u>1,268,910</u>	<u>2,291,695</u>
<u>Net Cash Assets</u>		
Restricted	303,230	320,557
Unrestricted	<u>965,680</u>	<u>1,971,138</u>
Total net cash assets	<u>\$ 1,268,910</u>	<u>\$ 2,291,695</u>

The total net cash assets of the District decreased \$1,022,785, which represents a 44.63% decrease from fiscal year 2010. The change in net cash assets for fiscal year 2011 was a decrease of \$1,022,785 compared to a decrease of \$1,365,355 in fiscal year 2010. Over the past two fiscal years, net cash assets have decreased \$2,388,140 as both program cash receipts and general cash receipts are not sufficient to meet government-wide disbursements.

A portion of the District's net cash assets, \$303,230, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net assets of \$965,680 may be used to meet the government's ongoing obligations to citizens and creditors.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The table below shows the changes in net cash assets for fiscal year 2011 and 2010:

	<b>Change in Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
<b>Cash Receipts:</b>		
Program cash receipts:		
Charges for services	\$ 1,124,441	\$ 1,189,298
Operating grants and contributions	<u>2,980,925</u>	<u>2,170,649</u>
Total program cash receipts	<u>4,105,366</u>	<u>3,359,947</u>
General cash receipts:		
Property and other taxes	9,281,404	9,244,413
Unrestricted grants and entitlements	9,594,251	10,453,334
Investment earnings	2,942	56,648
Other	<u>147,999</u>	<u>91,169</u>
Total general cash receipts	<u>19,026,596</u>	<u>19,845,564</u>
Total cash receipts	<u>23,131,962</u>	<u>23,205,511</u>

- Continued

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<b>Change in Net Assets (Continued)</b>	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
<b>Cash Disbursements:</b>		
Instruction:		
Regular	\$ 9,766,961	\$ 10,103,897
Special	2,525,124	2,558,428
Other	1,100,499	958,525
Support services:		
Pupil	943,805	879,700
Instructional staff	1,620,500	1,659,450
Board of education	18,183	66,996
Administration	1,961,218	1,926,688
Fiscal	493,606	488,747
Business	6,899	6,577
Operations and maintenance	1,842,114	2,082,056
Pupil transportation	1,229,060	1,297,000
Central	359,665	185,026
Operation of non instructional services:		
Other non-instructional services	4,164	3,631
Food service operations	937,623	934,763
Extracurricular	1,112,914	1,151,390
Debt service:		
Principal retirement	220,417	240,586
Interest and fiscal charges	<u>11,995</u>	<u>27,406</u>
Total cash disbursements	<u>24,154,747</u>	<u>24,570,866</u>
Change in net cash assets	(1,022,785)	(1,365,355)
Net cash assets at beginning of year	<u>2,291,695</u>	<u>3,657,050</u>
Net cash assets at end of year	<u>\$ 1,268,910</u>	<u>\$ 2,291,695</u>

**Governmental Activities**

Governmental assets decreased by \$1,022,785 in fiscal year 2011 from fiscal year 2010. Total governmental disbursements of \$24,154,747 were partially offset by program receipts of \$4,105,366 and general receipts of \$19,026,596. Program receipts supported 17.00% of the total governmental disbursements.

General cash receipts decreased \$818,968 while program specific receipts in the form of operating grants and contributions increased \$810,276 in fiscal year 2011. This resulted primarily from the classification of specific funding related to special education through the Pathway to Student Success (PASS) program.

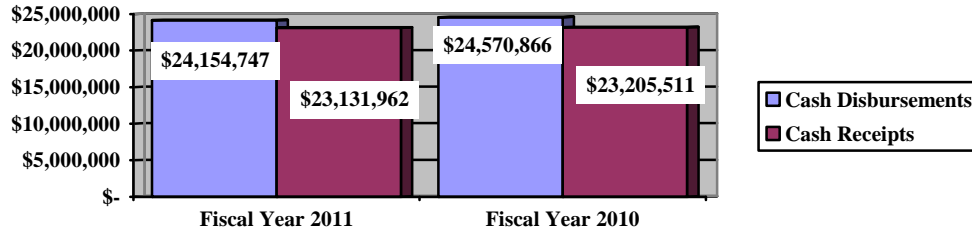
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These receipt sources represent 81.60% of total governmental receipts. Real estate property is reappraised every six years.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2010 and 2011.

**Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements**



As can be seen above, cash receipts were not sufficient to cover cash disbursements in fiscal year 2011.

The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

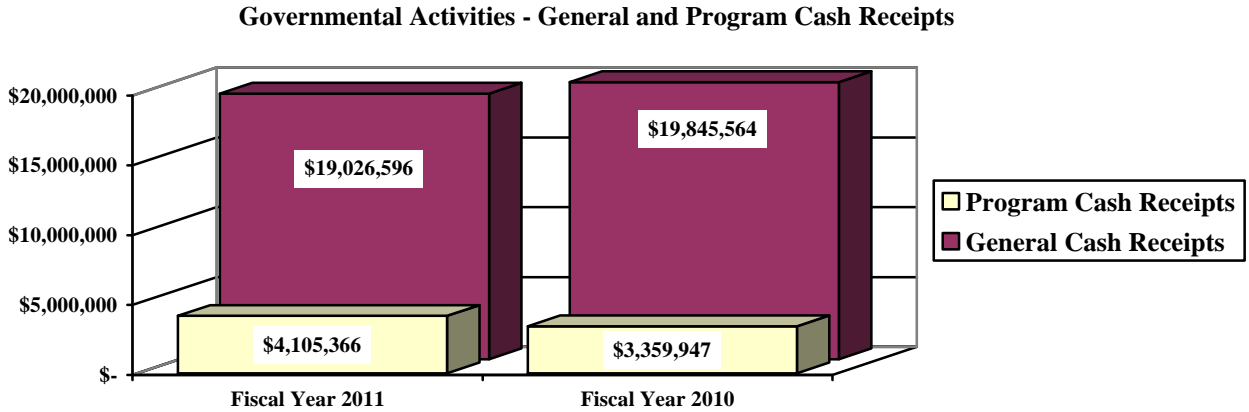
	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
Cash disbursements:				
Instruction:				
Regular	\$ 9,766,961	\$ 9,299,654	\$ 10,103,897	\$ 9,822,177
Special	2,525,124	1,369,244	2,558,428	1,776,858
Other	1,100,499	1,044,447	958,525	765,106
Support services:				
Pupil	943,805	538,896	879,700	504,992
Instructional staff	1,620,500	1,601,338	1,659,450	1,647,996
Board of education	18,183	16,205	66,996	66,996
Administration	1,961,218	1,752,012	1,926,688	1,836,825
Fiscal	493,606	493,606	488,747	488,747
Business	6,899	6,899	6,577	6,577
Operations and maintenance	1,842,114	1,584,971	2,082,056	1,802,480
Pupil transportation	1,229,060	1,127,418	1,297,000	1,201,222
Central	359,665	89,037	185,026	66,571
Operation of non instructional services:				
Other non-instructional services	4,164	3,411	3,631	3,566
Food service operations	937,623	24,525	934,763	30,750
Extracurricular	1,112,914	865,306	1,151,390	922,064
Debt service:				
Principal retirement	220,417	220,417	240,586	240,586
Interest and fiscal charges	11,995	11,995	27,406	27,406
<b>Total</b>	<u>\$ 24,154,747</u>	<u>\$ 20,049,381</u>	<u>\$ 24,570,866</u>	<u>\$ 21,210,919</u>

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The dependence upon general cash receipts for governmental activities is apparent; with 83.00% of cash disbursements supported through taxes and other general cash receipts during 2011.

The graph below presents the District's governmental activities cash receipts for fiscal years 2011 and 2010.



As stated earlier, in fiscal year 2011, certain PASS special education receipts were classified as program cash receipts causing an increase from 2010 levels; however, there is a corresponding decrease in general cash receipts compared to fiscal year 2010 related to this classification.

**Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The District's governmental funds are accounted for using the cash basis of accounting.

The District's governmental funds reported a combined fund balance of \$834,568, which is a lower balance than last year's total restated balance of \$2,039,479 (as described in Note 3B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010, for all major and nonmajor governmental funds.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	(Decrease)
Major fund:			
General	\$ 614,217	\$ 1,770,419	\$(1,156,202)
Other nonmajor governmental funds	220,351	269,060	(48,709)
<b>Total</b>	<b>\$ 834,568</b>	<b>\$ 2,039,479</b>	<b>\$(1,204,911)</b>



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

***General Fund***

The general fund, the District's largest major fund, had cash receipts of \$19,292,307 in 2011. The cash disbursements of the general fund, totaled \$20,838,509 in 2011. The general fund's fund balance decreased \$1,156,202 from 2010 to 2011. The decrease in fund balance can be attributed to a decrease in earnings on investments and intergovernmental revenue. Earnings on investments decreased due to lower rates of interest on the District's investments and intergovernmental revenues decreased due to the decrease in funds received from the State.

The table that follows assists in illustrating the cash receipts of the general fund.

	<u>2011</u> <u>Amount</u>	<u>Restated</u> <u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Cash Receipts:</u></b>			
Taxes	\$ 8,702,983	\$ 8,669,663	0.38 %
Tuition	108,285	189,198	(42.77) %
Earnings on investments	2,549	56,069	(95.45) %
Other local revenues	300,651	261,650	14.91 %
Intergovernmental - State	<u>10,177,839</u>	<u>10,420,309</u>	(2.33) %
Total	<u>\$ 19,292,307</u>	<u>\$ 19,596,889</u>	(1.55) %

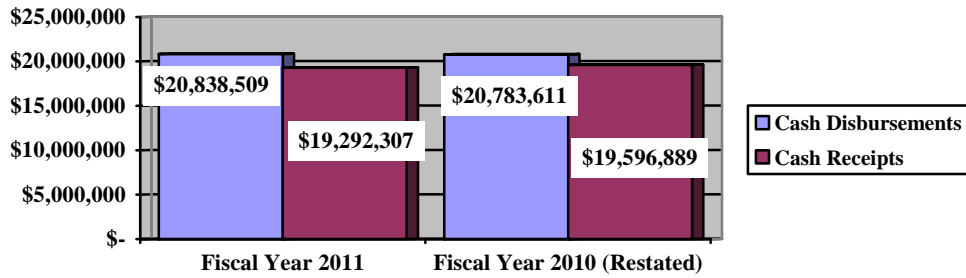
The table that follows assists in illustrating the cash disbursements of the general fund.

	<u>2011</u> <u>Amount</u>	<u>Restated</u> <u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Cash Disbursements</u></b>			
Instruction	\$ 12,800,594	\$ 12,660,580	1.11 %
Support services	7,134,628	7,218,536	(1.16) %
Operation of non-instruction	4,164	339	1,128.32 %
Extracurricular	862,741	867,773	(0.58) %
Debt service	<u>36,382</u>	<u>36,383</u>	(0.00) %
Total	<u>\$ 20,838,509</u>	<u>\$ 20,783,611</u>	0.26 %

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**General Fund - Total Cash Receipts vs. Total Cash Disbursements**



***Budgeting Highlights - General Fund***

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

During the course of fiscal year 2011, the District amended its general fund budget numerous times. For the general fund, original and final budgeted receipts were \$20,311,300 they were decreased to \$19,117,488 in the actual receipts. This represents a \$1,193,812 decrease under final budgeted receipts. The decrease is due primarily to the decrease in actual property taxes and intergovernmental receipts.

General fund original and final appropriations (appropriated disbursements including other financing uses) were \$21,522,768. The actual budget basis disbursements for fiscal year 2011 totaled \$20,761,785, which was \$760,983 less than the budget appropriations. The decrease is due primarily to the decrease in actual disbursements related to regular instruction.

**Capital Assets and Debt Administration**

***Capital Assets***

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

***Debt Administration***

The District had the following long-term obligations outstanding at June 30, 2011 and 2010.

	Governmental Activities 2011	Governmental Activities 2010
Lease purchase agreement	\$ 152,149	\$ -
Capital lease obligation	35,362	68,014
Note payable	53,150	155,558
<b>Total long-term obligations</b>	<b>\$ 240,661</b>	<b>\$ 223,572</b>

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Current Financial Related Activities**

The very serious funding challenges that have been predicted for the past few years are now a reality for the District. Our receipts have declined and our disbursements, although still very modest, have increased due to inflationary factors in our economy. We are fortunate to have a permanent improvement levy which gives us the ability to keep our facilities, vehicles, technology and instructional materials up to date for the best service to our students. But our operating funds will be depleted by the end of this fiscal year.

We have reached the point where we have no other options than to place a ballot issue before our voters. A 7.6 mill Emergency Levy which will generate \$2.68 million is on the ballot for November 2011.

State and federal funding play a key role in the operation of the District. Due to the population of special needs students we serve, we receive a significant amount of IDEA funding. Other receipts from the federal government in the way of CCIP funding is relatively nominal, but nevertheless helpful, in funding professional development for our staff, innovative programs, reading initiatives, substance abuse education and technology updates. Our State Foundation receipts did not increase for fiscal year 2011 and are actually decreasing this year. Assistance from the Federal Government in the form of 'stimulus' funds to the State of Ohio which had been used to supplant funding cuts from the state, have now been spent.

A substantial amount of other Federal money funneled through the State from the Federal government in the area of Special Education and Title I is available to us for the 2011-2012 period as well. The guidelines and funding options for this money are quite strict and while it will surely help with the two programs it is channeled to, it will do nothing to help our general fund bottom line, which is currently the biggest concern.

Our enrollment has remained fairly steady, with only slight decreases over the years. The District is primarily a residential community and our schools are widely considered to be among the premier schools in Richland County, routinely earning excellent status on our State Report Card. Our cost per pupil is near the bottom of the list for area schools and we take great pride in the quality of education provided by the District.

In conclusion, the District has committed itself to fiscal responsibility and takes special care to be sure that we spend our funds on items and services that are most crucial to the long-term success of our District and, more importantly, the children we serve

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Judy Stahl-Reynolds, Treasurer of Lexington Local School District, 103 Clever Lane, Lexington, Ohio 44904.

**CASH BASIS BASIC  
FINANCIAL STATEMENTS**

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 1,266,985
Cash in segregated accounts. . . . .	1,925
Total assets . . . . .	1,268,910
 <b>Net cash assets:</b>	
Restricted for:	
Capital projects . . . . .	42,358
Debt service . . . . .	1,925
State funded programs. . . . .	44,251
Federally funded programs . . . . .	49,705
Student activities. . . . .	31,375
Other purposes. . . . .	133,616
Unrestricted . . . . .	965,680
Total net cash assets. . . . .	\$ 1,268,910

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Changes Net Cash Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 9,766,961	\$ 162,551	\$ 304,756	\$ (9,299,654)
Special . . . . .	2,525,124	18,203	1,137,677	(1,369,244)
Other . . . . .	1,100,499	-	56,052	(1,044,447)
Support services:				
Pupil . . . . .	943,805	-	404,909	(538,896)
Instructional staff . . . . .	1,620,500	-	19,162	(1,601,338)
Board of education . . . . .	18,183	-	1,978	(16,205)
Administration . . . . .	1,961,218	49,336	159,870	(1,752,012)
Fiscal . . . . .	493,606	-	-	(493,606)
Business . . . . .	6,899	-	-	(6,899)
Operations and maintenance . . . . .	1,842,114	9,832	247,311	(1,584,971)
Pupil transportation . . . . .	1,229,060	-	101,642	(1,127,418)
Central . . . . .	359,665	-	270,628	(89,037)
Operation of non-instructional services:				
Other non-instructional services . . . . .	4,164	-	753	(3,411)
Food service operations . . . . .	937,623	652,739	260,359	(24,525)
Extracurricular activities . . . . .	1,112,914	231,780	15,828	(865,306)
Debt service:				
Principal retirement . . . . .	220,417	-	-	(220,417)
Interest and fiscal charges . . . . .	11,995	-	-	(11,995)
<b>Total governmental activities . . . . .</b>	<b>\$ 24,154,747</b>	<b>\$ 1,124,441</b>	<b>\$ 2,980,925</b>	<b>(20,049,381)</b>

**General cash receipts:**

Property taxes levied for:	
General purposes . . . . .	8,702,983
Capital outlay . . . . .	578,421
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	2,942
Miscellaneous . . . . .	147,999
<b>Total general receipts . . . . .</b>	<b>19,026,596</b>
Change in net cash assets . . . . .	(1,022,785)
<b>Net cash assets at beginning of year . . . . .</b>	<b>2,291,695</b>
<b>Net cash assets at end of year . . . . .</b>	<b>\$ 1,268,910</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 532,174	\$ 218,426	\$ 750,600
Cash in segregated accounts . . . . .	-	1,925	1,925
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	82,043	-	82,043
Total assets . . . . .	<u>\$ 614,217</u>	<u>\$ 220,351</u>	<u>\$ 834,568</u>
<b>Fund cash balances:</b>			
Restricted:			
Debt service . . . . .	\$ -	\$ 1,925	\$ 1,925
Capital improvements . . . . .	-	42,358	42,358
Food service operations . . . . .	-	51,573	51,573
Special education . . . . .	-	24,603	24,603
Targeted academic assistance . . . . .	-	21,451	21,451
Extracurricular . . . . .	-	31,375	31,375
Other purposes . . . . .	-	47,902	47,902
School bus purchases . . . . .	692	-	692
Assigned:			
Student instruction . . . . .	1,321	-	1,321
Student and staff support . . . . .	36,616	-	36,616
Extracurricular activities . . . . .	190	-	190
Other purposes . . . . .	8,677	-	8,677
Unassigned (deficit) . . . . .	<u>566,721</u>	<u>(836)</u>	<u>565,885</u>
Total fund cash balances . . . . .	<u>\$ 614,217</u>	<u>\$ 220,351</u>	<u>\$ 834,568</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO  
NET ASSETS - CASH BASIS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

<b>Total governmental fund cash balances</b>	\$ 834,568
<i>Amounts reported for governmental activities on the statement of net assets-cash basis are different because:</i>	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net assets - cash basis.	<u>434,342</u>
<b>Net assets-cash basis of governmental activities</b>	<u><u>\$ 1,268,910</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES  
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash receipts:</b>			
From local sources:			
Property taxes . . . . .	\$ 8,702,983	\$ 578,421	\$ 9,281,404
Tuition. . . . .	108,285	-	108,285
Earnings on investments . . . . .	2,549	47	2,596
Charges for services . . . . .	-	649,837	649,837
Extracurricular. . . . .	43,074	229,150	272,224
Classroom materials and fees . . . . .	71,936	-	71,936
Rental income . . . . .	9,832	2,630	12,462
Contributions and donations . . . . .	11,077	3,100	14,177
Other local revenues . . . . .	164,732	2,902	167,634
Intergovernmental - state . . . . .	10,177,839	139,845	10,317,684
Intergovernmental - federal . . . . .	-	2,233,330	2,233,330
Total cash receipts . . . . .	<u>19,292,307</u>	<u>3,839,262</u>	<u>23,131,569</u>
<b>Cash disbursements:</b>			
Current:			
Instruction:			
Regular. . . . .	9,649,109	336,708	9,985,817
Special . . . . .	2,104,072	468,725	2,572,797
Other . . . . .	1,047,413	53,086	1,100,499
Support services:			
Pupil . . . . .	533,915	422,321	956,236
Instructional staff . . . . .	1,662,451	19,568	1,682,019
Board of education . . . . .	17,418	765	18,183
Administration . . . . .	1,839,835	150,560	1,990,395
Fiscal . . . . .	487,030	11,377	498,407
Business. . . . .	6,899	-	6,899
Operations and maintenance . . . . .	1,494,662	372,667	1,867,329
Pupil transportation . . . . .	1,092,418	150,987	1,243,405
Central . . . . .	-	359,665	359,665
Operation of non-instructional services:			
Other non-instructional services . . . . .	4,164	-	4,164
Food service operations. . . . .	-	952,528	952,528
Extracurricular activities . . . . .	862,741	252,984	1,115,725
Debt service:			
Principal retirement. . . . .	31,019	189,398	220,417
Interest and fiscal charges . . . . .	5,363	6,632	11,995
Total cash disbursements. . . . .	<u>20,838,509</u>	<u>3,747,971</u>	<u>24,586,480</u>
Excess (deficiency) of cash receipts over (under) cash disbursements . . . . .	<u>(1,546,202)</u>	<u>91,291</u>	<u>(1,454,911)</u>
<b>Other financing sources (uses):</b>			
Advances in . . . . .	390,000	-	390,000
Advances (out) . . . . .	-	(140,000)	(140,000)
Total other financing sources (uses). . . . .	<u>390,000</u>	<u>(140,000)</u>	<u>250,000</u>
Net change in fund cash balances . . . . .	(1,156,202)	(48,709)	(1,204,911)
<b>Fund cash balances at beginning of year (restated - Note 3). . . . .</b>	<u>1,770,419</u>	<u>269,060</u>	<u>2,039,479</u>
<b>Fund cash balances at end of year . . . . .</b>	<u>\$ 614,217</u>	<u>\$ 220,351</u>	<u>\$ 834,568</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS  
TO THE STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**Net change in fund balances - cash basis - total governmental funds** \$ (1,204,911)

*Amounts reported for governmental activities in the  
statement of activities - cash basis are different because:*

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities - cash basis. Governmental fund disbursements and the related internal service fund receipts are eliminated. The total change in net assets of the internal service fund is allocated among the governmental activities.

182,126

**Change in net cash assets of governmental activities** \$ (1,022,785)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Budgetary basis receipts:</b>				
From local sources:				
Property taxes . . . . .	\$ 9,246,450	\$ 9,246,450	\$ 8,702,983	\$ (543,467)
Tuition . . . . .	115,047	115,047	108,285	(6,762)
Earnings on investments . . . . .	2,708	2,708	2,549	(159)
Classroom materials and fees . . . . .	76,428	76,428	71,936	(4,492)
Rental income . . . . .	10,446	10,446	9,832	(614)
Other local revenues . . . . .	46,816	46,816	44,064	(2,752)
Intergovernmental - state . . . . .	10,813,405	10,813,405	10,177,839	(635,566)
Total budgetary basis receipts . . . . .	<u>20,311,300</u>	<u>20,311,300</u>	<u>19,117,488</u>	<u>(1,193,812)</u>
<b>Budgetary basis disbursements:</b>				
Current:				
Instruction:				
Regular . . . . .	9,040,070	9,040,070	9,656,751	(616,681)
Special . . . . .	1,805,734	1,805,734	2,104,914	(299,180)
Other . . . . .	767,090	767,090	1,047,420	(280,330)
Support services:				
Pupil . . . . .	515,252	515,252	537,024	(21,772)
Instructional staff . . . . .	1,621,475	1,621,475	1,668,516	(47,041)
Board of education . . . . .	67,058	67,058	17,980	49,078
Administration . . . . .	1,832,560	1,832,560	1,778,668	53,892
Fiscal . . . . .	476,343	476,343	487,105	(10,762)
Business . . . . .	6,577	6,577	6,899	(322)
Operations and maintenance . . . . .	1,756,127	1,756,127	1,496,815	259,312
Pupil transportation . . . . .	1,129,772	1,129,772	1,092,598	37,174
Operation of non-instructional services:				
Other non-instructional services . . . . .	400	400	4,164	(3,764)
Extracurricular activities . . . . .	865,556	865,556	862,931	2,625
Total budgetary basis disbursements . . . . .	<u>19,884,014</u>	<u>19,884,014</u>	<u>20,761,785</u>	<u>(877,771)</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements . . . . .	<u>427,286</u>	<u>427,286</u>	<u>(1,644,297)</u>	<u>(2,071,583)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	37,412	37,412	103,935	66,523
Refund of prior year's receipts . . . . .	-	-	-	-
Transfers (out) . . . . .	(1,647,148)	(1,647,148)	-	1,647,148
Advances in . . . . .	-	-	390,000	390,000
Advances (out) . . . . .	(29,018)	(29,018)	-	29,018
Total other financing sources (uses) . . . . .	<u>(1,638,754)</u>	<u>(1,638,754)</u>	<u>493,935</u>	<u>2,132,689</u>
Net change in fund cash balance . . . . .	(1,211,468)	(1,211,468)	(1,150,362)	61,106
<b>Fund cash balance at beginning</b>				
of year (restated - Note 3) . . . . .	1,696,662	1,696,662	1,696,662	-
Prior year encumbrances appropriated . . . . .	21,113	21,113	21,113	-
Fund cash balance at end of year . . . . .	<u>\$ 506,307</u>	<u>\$ 506,307</u>	<u>\$ 567,413</u>	<u>\$ 61,106</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2011

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 434,342
Total assets. . . . .	<u>434,342</u>
 <b>Net cash assets:</b>	
Unrestricted. . . . .	<u>434,342</u>
Total net cash assets. . . . .	<u>\$ 434,342</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
NET ASSETS - CASH BASIS - PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Operating cash receipts:</b>	
Sales/charges for services. . . . .	\$ 3,748,924
Total operating cash receipts . . . . .	<u>3,748,924</u>
<b>Operating cash disbursements:</b>	
Purchased services. . . . .	1,482,010
Claims. . . . .	<u>1,835,181</u>
Total operating cash disbursements . . . . .	<u>3,317,191</u>
Operating income. . . . .	<u>431,733</u>
<b>Nonoperating cash receipts (disbursements):</b>	
Advances out. . . . .	(250,000)
Interest receipts . . . . .	<u>393</u>
Total nonoperating cash receipts (disbursements) . . . . .	<u>(249,607)</u>
Change in net cash assets. . . . .	182,126
<b>Net cash assets at beginning of year . . . . .</b>	<u>252,216</u>
<b>Net cash assets at end of year. . . . .</b>	<u><u>\$ 434,342</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT**  
**RICHLAND COUNTY, OHIO**  
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 12,204	\$ 61,562
Total assets. . . . .	<u>\$ 12,204</u>	<u>\$ 61,562</u>
<b>Net cash assets:</b>		
Held in trust for scholarships . . . . .	\$ 12,204	\$ -
Held for student activities . . . . .	<u>-</u>	<u>61,562</u>
Total net cash assets . . . . .	<u>\$ 12,204</u>	<u>\$ 61,562</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 14
Gifts and contributions . . . . .	136
Total additions . . . . .	150
 <b>Deductions:</b>	
Scholarships awarded . . . . .	1,950
Change in net cash assets . . . . .	(1,800)
<b>Net cash assets at beginning of year . . . .</b>	<b>14,004</b>
<b>Net cash assets at end of year . . . . .</b>	<b>\$ 12,204</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Lexington Local School District (the "District") is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected five-member Board of Education and is responsible for providing public education to the residents of the District.

The District was established in the early 1900's through the consolidation of existing land areas and school districts. The District serves an area of approximately 66 square miles. It is located in Richland and Morrow Counties, and includes the Village of Lexington, portions of the City of Mansfield, and Perry, Troy, Washington, and Mansfield Townships in Richland County and Troy and North Bloomfield Townships in Morrow County.

The District currently operates 5 instructional facilities. The District employs 120 non-certified and 162 certified employees to provide services to approximately 2,725 students in grades K through 12 and various community groups.

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

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG 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. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Pioneer Career and Technology Center (PCTC)

The Pioneer Career and Technology Center (a vocational school district), is a distinct political subdivision of the State of Ohio. PCTC is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and possesses its own budgeting and taxing authority. To obtain financial information write to the Pioneer Career and Technology Center, Jerry A. Payne, Treasurer at 27 Ryan Road, Shelby, Ohio 44875-0309.

*INSURANCE PURCHASING POOL*

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

The 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 (the "GRP") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Basis of Accounting**

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**C. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. The following is the District's major governmental fund:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than capital projects.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health and dental benefits to employees.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net cash assets and changes in net cash 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student activity.

**D. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets-cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of cash receipts and cash disbursements.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2011 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2011.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District (other than cash in segregated accounts) is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund or 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 2011 amounted to \$2,549, which includes \$938 assigned from other District funds.

At June 30, 2011, the District had no investments. All cash was maintained in demand deposit accounts. See Note 4 for more detail.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

**G. Capital Assets**

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

**H. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

**I. Long-Term Obligations**

Lease purchase agreements and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**J. Fund Cash Balance**

The District reports classifications of fund cash balance based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories may be used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education.

Assigned - amounts that are constrained by the District's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The District applies restricted resources first when a disbursement is incurred for purposes for which restricted and unrestricted fund cash balance is available. The District considers committed, assigned, and unassigned fund cash balances, respectively, to be spent when disbursements are incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

**K. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

**L. Net Cash Assets**

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

**M. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had \$82,043 in restricted cash assets at June 30, 2011. See Note 15 for detail.

**N. Interfund Activity**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund activity between governmental funds are eliminated on the statement of assets - cash basis and the statement of activities - cash basis.

**O. Parochial Schools**

Within the District boundaries, Grace Christian is operated by Grace Brethren Church. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and disbursements of these State monies by the District are reflected as special revenue funds for financial reporting purposes.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund cash balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund cash balance as previously reported	\$ 1,719,614	\$ 319,865	\$ 2,039,479
Fund reclassifications:			
Public school support fund	25,354	(25,354)	-
Other grants fund	25,451	(25,451)	-
Total fund reclassifications	50,805	(50,805)	-
Restated fund cash balance at July 1, 2010	\$ 1,770,419	\$ 269,060	\$ 2,039,479

The fund reclassifications did not have an effect on net cash assets as previously reported.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**C. Budgetary Prior Period Adjustment**

In prior years, certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. Pursuant to GASB Statement No. 54, only the legally budgeted general fund should be reported in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

<b>Budgetary Basis</b>	<b>General</b>
Fund cash balance at June 30, 2010	\$ 1,698,501
Funds budgeted elsewhere	(1,839)
Restated fund cash balance at July 1, 2010	\$ 1,696,662

**D. Compliance**

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash on Hand**

At fiscal year end, the District had \$3,100 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

**B. Cash in Segregated Account**

At fiscal year end, \$1,925 was on deposit in the District’s debt service clearance account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as “equity in pooled cash and cash equivalents”.

**C. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$1,339,576. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$1,013,513 of the District’s bank balance of \$1,513,513 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**D. Reconciliation of Deposits and Cash on Hand to the Statement of Net Assets**

The following is a reconciliation of deposits and cash on hand as reported in the note above to cash as reported on the statement of net assets as of June 30, 2011:

<u>Deposits and cash on hand</u>	
Carrying amount of deposits	\$ 1,339,576
Cash on hand	3,100
Total	\$ 1,342,676
 <u>Cash per statement of net assets</u>	
Governmental funds	\$ 1,268,910
Private-purpose trust fund	12,204
Agency fund	61,562
Total	\$ 1,342,676

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund advances for the year ended June 30, 2011, consisted of the following, as reported on the fund statements:

Advances to the general fund from:

Nonmajor governmental funds	\$ 140,000
Internal service fund	250,000

The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. These interfund advances were made to repay advances made in the prior fiscal year from the general fund.

Interfund advances between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Richland and Morrow Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 350,459,230	98.08	\$ 349,880,140	97.99
Public utility personal	<u>6,852,220</u>	<u>1.92</u>	<u>7,169,080</u>	<u>2.01</u>
Total	<u>\$ 357,311,450</u>	<u>100.00</u>	<u>\$ 357,049,220</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$29.41		\$29.41	

**NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In a prior fiscal year, the District entered into a capitalized lease for the acquisition of copiers. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service disbursements in the financial statements for the governmental funds.

Capital lease payments have been reflected as debt service disbursements in the general fund, the food service fund (a nonmajor governmental fund) and the district-managed activity fund (a nonmajor governmental fund). Principal payments in fiscal year 2011 totaled \$32,652.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2012	\$ <u>38,297</u>
Total	38,297
Less: amount representing interest	<u>(2,935)</u>
Total	<u>\$ 35,362</u>

**LEXINGTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 8 - LEASE-PURCHASE AGREEMENT**

During the current year, the District entered into a lease-purchase agreement with Dell Financial Services for new computers and equipment. This lease meets the criteria of a lease-purchase as defined by FASB codification, which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Lease-purchase payments have been reflected as debt service disbursements in the permanent improvement fund (a nonmajor governmental fund). Principal payments in fiscal year 2011 totaled \$85,357.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the future minimum lease payments as of June 30, 2011:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2012	\$ 85,357
2013	<u>85,357</u>
Total	170,714
Less: amount representing interest	<u>(18,565)</u>
Total	<u>\$ 152,149</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations.

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Capital lease obligation	\$ 68,014	\$ -	\$ (32,652)	\$ 35,362	\$ 35,362
Note payable	155,558	-	(102,408)	53,150	53,150
Lease purchase agreement	<u>-</u>	<u>237,506</u>	<u>(85,357)</u>	<u>152,149</u>	<u>73,137</u>
Total governmental activities	<u>\$ 223,572</u>	<u>\$ 237,506</u>	<u>\$ (220,417)</u>	<u>\$ 240,661</u>	<u>\$ 161,649</u>

**B. Note Payable**

In a prior fiscal year, the District issued notes in the amount of \$300,000. The notes were issued for the purpose of acquiring bleachers. The notes were issued at 4.9% for three years with semi-annual payments due in April and October. The note payments are being paid from the permanent improvement fund (a nonmajor governmental fund).

**LEXINGTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a schedule of future payments:

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 53,150	\$ 1,355	\$ 54,505
Total	<u>\$ 53,150</u>	<u>\$ 1,355</u>	<u>\$ 54,505</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$31,491,138 and an unvoted debt margin of \$349,880.

**NOTE 10 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for forty percent of the total sick leave accumulation, up to a maximum accumulation of 270 days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by State Teachers Retirement System of Ohio and School Employees Retirement System.

**B. Life Insurance**

The District provides life insurance and accidental death and dismemberment insurance to most employees through the Anthem Life Insurance Company.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

The District had the following coverages in effect for fiscal year 2011:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ -
Aggregate	2,000,000	-
Umbrella	5,000,000	10,000
Fleet:		
Comprehensive	1,000,000	500
Collision	1,000,000	500
Building and contents	56,877,546	1,000

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

**B. Health Benefits**

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to a third party administrator who in turn pays the claims on the District's behalf.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

**C. Workers' Compensation**

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants of the GRP are placed in tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

**LEXINGTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Media/Financial Reports*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$379,852, \$392,688 and \$291,733, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org) under *Publications*.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.



**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 12 - PENSION PLANS - (Continued)**

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,370,696, \$1,394,681 and \$1,340,838, respectively; 83.41 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Media/Financial Reports*.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$93,977, \$78,510 and \$195,668, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$24,444, \$23,352 and \$24,070, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$105,438, \$107,283 and \$103,141, respectively; 83.41 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 14 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either a plaintiff or defendant.

**NOTE 15 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2011, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside reserve balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	396,370	396,370
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(287,482)	(396,370)
Excess qualified expenditures from prior years	(108,888)	-
Current year offsets	-	-
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ -</u>
Balance carried forward to fiscal year 2012	<u>\$ (2,216,054)</u>	<u>\$ -</u>
Set-aside reserve balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

For the textbooks reserve, qualifying expenditures exceeding the set-aside requirement may be carried forward to the next fiscal year. For the capital improvements reserve, qualifying expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year. Effective July 1, 2011, the textbook set-aside laws have been repealed.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 15 - STATUTORY RESERVES - (Continued)**

In addition to the above statutory reserves, the District also has \$81,351 in restricted Bureau of Workers' Compensation (BWC) refunds and \$692 in monies restricted for school bus purchases. Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and restricted fund balance in the general fund since allowable expenditures are restricted by State statute.

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for BWC refunds	\$ 81,351
Amount restricted for school bus purchases	<u>692</u>
Total restricted cash	<u>\$ 82,043</u>

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund and the emergency levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is (1) outstanding year end encumbrances are treated as disbursements (budget) rather than assigned fund balance (cash) and (2) certain funds are included in the general fund on a cash-basis but budgeted as special revenue funds on a budget-basis.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund;

**Net Change in Fund Cash Balance**

	<u>General fund</u>
Cash basis	\$ (1,156,202)
Funds budgeted elsewhere **	19,494
Adjustment for encumbrances	<u>(13,654)</u>
Budget basis	<u>\$ (1,150,362)</u>

\*\* As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the adult education fund, the other grants fund and the public school support fund.

**LEXINGTON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 17 - COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 15,008
Other governmental	<u>40,056</u>
Total	<u>\$ 55,064</u>

**NOTE 18 – SUBSEQUENT EVENT**

The District passed a levy on the November 2011 ballot for 7.6 mills. The levy is expected to raise approximately \$2,680,000.

The Board of Education approved the issuance of a tax anticipation note in the amount of \$1,985,000.

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**Lexington Local School District  
Richland County, Ohio**

\* \* \* \*

*Audit Report Letters*

***June 30, 2011***

**LEXINGTON LOCAL SCHOOL DISTRICT**

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December 28, 2011

To the Board of Education  
Lexington Local School District  
103 Clever Lane  
Lexington, Ohio 44904

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information prepared on the cash basis of accounting for the Lexington Local School District (the "District") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2011-01.

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

We noted certain matters that we reported to management of the District in a separate letter dated December 28, 2011.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

December 28, 2011

The Board of Education  
Lexington Local School District  
103 Clever Lane  
Lexington, Ohio 44904

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Compliance**

We have audited the compliance of Lexington Local School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the District's management. 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 Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Finding 2011-02 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs that are applicable to its Title I federal program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

Lexington Local School District  
Report on Compliance with Requirements That Could Have a Direct and Material  
Effect on Each Major Program and on Internal Control Over Compliance in Accordance  
with OMB Circular A-133

Page 2 of 2

In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-02 to be a material weakness.

**Schedule of Expenditures of Federal Awards – Cash Basis**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information prepared on the cash basis of accounting of the District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on the response.

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

**LEXINGTON LOCAL SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
<b>U. S. Department of Education (Passed Through Ohio Department of Education):</b>				
<i>Title I Cluster</i>				
Title I	84.010	2010	\$ 23,716	\$ 26,716
Title I	84.010	2011	179,274	158,440
Title I- ARRA	84.389	2011	<u>105,000</u>	<u>106,536</u>
Total Title I Cluster			307,990	291,692
<i>Special Education Cluster</i>				
IDEA-B	84.027	2010	0	992
IDEA-B	84.027	2011	436,126	423,713
IDEA-B- ARRA	84.391	2011	<u>45,060</u>	<u>74,444</u>
Total Special Educaton Cluster			481,186	499,149
Safe and Drug-Free Schools and Communities	84.186	2011	<u>3,253</u>	<u>2,606</u>
Total Safe and Drug-Free Schools and Communities			3,253	2,606
Education Jobs Fund	84.410	2011	<u>403,166</u>	<u>363,166</u>
Total Education Jobs Fund			403,166	363,166
Title II-D	84.318	2011	<u>753</u>	<u>753</u>
Total Title II-D			753	753
Title II-A	84.367	2010	0	2,297
Title II-A	84.367	2011	<u>61,975</u>	<u>62,811</u>
Total Title II-A			61,975	65,108
Race to the Top- ARRA	84.395	2011	<u>2,986</u>	<u>757</u>
Total Race to the Top			2,986	757
State Fiscal Stabilization Fund - ARRA	84.394	2011	<u>717,618</u>	<u>717,618</u>
Total State Fiscal Stabilization Fund			717,618	717,618
Total U.S. Department of Education			<u>1,978,927</u>	<u>1,940,849</u>
<b>U. S. Department of Agriculture (Passed Through Ohio Department of Education):</b>				
<i>Nutrition Cluster</i>				
Cash Assistance:				
School Breakfast Program	(A) 10.553	2011	<u>19,026</u>	<u>19,026</u>
Total School Breakfast Program			19,026	19,026
Non-Cash Assistance:				
National School Lunch Program	(B) 10.555	2011	70,078	70,078
Cash Assistance:				
National School Lunch Program	(A) 10.555	2011	<u>235,377</u>	<u>235,377</u>
Total National School Lunch Program			305,455	305,455
Total Nutrition Cluster			<u>324,481</u>	<u>324,481</u>
Total U.S. Department of Agriculture			324,481	324,481
Total Federal Assistance			<u>\$ 2,303,408</u>	<u>\$ 2,265,330</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**Lexington Local School District  
Richland County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis  
For the Fiscal Year Ended June 30, 2011*

**Note A – National School Lunch Program**

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**Note B – Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

**Note C - Transfers**

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education's (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

CFDA		Program		
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.027	IDEA-B - Special Education - Grants to States	2010	\$ 12,191	
84.027	IDEA-B - Special Education - Grants to States	2011		\$ 12,191
84.186	Title IV – Safe and Drug Free Schools and Communities	2010	775	
84.186	Title IV – Safe and Drug Free Schools and Communities	2011		775
84.391	IDEA-B - Special Education - Grants to States- ARRA	2010	19,601	
84.391	IDEA-B - Special Education - Grants to States- ARRA	2011		19,601
84.010	Title I - Grants to Local Educational Agencies	2010	616	
84.010	Title I - Grants to Local Educational Agencies	2011		616

**LEXINGTON LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2011**

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Qualified- Title I Cluster CFDA #84.410, 84.389 Unqualified- Education Jobs CFDA #84.410 Unqualified- State Fiscal Stabilization Fund CFDA #84.394
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Education Jobs Fund State Fiscal Stabilization Fund Title I	CFDA: 84.410 84.394 84.010/84.389
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**LEXINGTON LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2011**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number:</b>	<b>2011-01</b>
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**Criteria:** Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

**Condition:** The District chose to prepare its financial statements and notes on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP.

**Cause:** The Lexington Local School District Board of Education elected , per resolution 32-10, to discontinue preparing its financial statements in accordance with GAAP. It was determined that the decision on whether or not to comply will be revisited annually and reviewed in conjunction with recommendation of the Treasurer.

**Potential Effect:** The financial statements and notes omit assets, liabilities, fund equities, and disclosures that are material, however, cannot be determined at this time.

**Recommendation:** It is recommended that the District prepare its annual financial report in accordance with GAAP to comply with Ohio Admin. Code Section 117-2-03(B).

**District's Response:** The Lexington Local Board of Education recognizes the value in preparing accurate and timely financial statements to reflect the District's operations as of fiscal year end. Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash basis of accounting will accurately reflect the district's financial position and allow for those resources previously spent on GAAP to be allocated to education purposes.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number:</b>	<b>2011-02</b>
<b>Non-Compliance/ Material Weakness - Allowable Costs</b>	

<b>CFDA Title and Number</b>	Title I Cluster – CFDA #84.010, #84.389
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Criteria:** Federal Regulations (Appendix A to 2 CFR 225 (C)(1)(c)) include the following requirements "To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal Awards
- b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
- c. Be authorized and not prohibited under State or local laws or regulations."



**LEXINGTON LOCAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 , Section .505**  
**JUNE 30, 2011**

<b>Finding Number:</b>	<b>2011-02 (Continued)</b>
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**Condition:** The district is required to specify to Ohio Department of Education (ODE) which school buildings will be provided with Title I assistance. In the process of reporting this information to the ODE there were specific school buildings that were not selected to receive targeted assistance. The error was undetected. We noted that Title I assistance was provided to the school buildings who had not been selected and were therefore ineligible to receive Title I program funding.

**Context:** In our testing of allowable costs, we noted there were certain expenditures included that were for non-payroll and payroll disbursements of school buildings that were not selected to receive targeted assistance of the Title I program.

**Questioned Costs:** During testing of Title I non-payroll expenditures, 3 out of 10 expenditures tested were improperly expended on buildings in which no targeted assistance was elected. Total unallowed non-payroll expenditures exceeded \$10,000. Upon further investigation we noted \$14,300 of related payroll expenditures charged for buildings in which no targeted assistance was elected. In total, our testing indicated there were questioned costs related to the Title I program in excess of \$24,300.

**Effect:** The District reported Title I federal expenditures to the Ohio Department of Education that were not allowable expenditures of the program. The unallowable expenditures were on school buildings that were not selected to receive Title I targeted assistance.

**Recommendations:** We recommend the Treasurer and respective grant coordinator annually discuss building eligibility and monitor all expenditures charged to the Federal grant funds. We also recommend the Treasurer review reports submitted to the Ohio Department of Education through CCIP to ensure the accuracy of information submitted.

**District's Response:** The District's Federal Grants Coordinator has routinely only checked Central and Western Elementary as schools that are qualified to use Title I funds. I don't believe he realized that, although the other schools were eligible for use of these funds, he had not checked Eastern Elementary and the Junior High School as locations where Title I funds would be spent. This was simply an oversight on our part and all of the buildings that are eligible for Title I expenditures have been checked for this Funding year and will continue to be selected, going forward.

**Lexington Local School District  
Richland County**

*Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2011*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2010-01	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis of accounting.

December 28, 2011

Lexington Local School District  
Richland County  
103 Clever Lane  
Lexington, Ohio 44904

### **Independent Accountant's Report on Applying Agreed-Upon Procedure**

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Lexington Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on September 26, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Rea & Associates, Inc.*

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# Dave Yost • Auditor of State

LEXINGTON LOCAL SCHOOL DISTRICT

RICHLAND 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  
MARCH 27, 2012