

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004***

JUDY STAHL, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Lexington Local School District
Lexington, Ohio

We have reviewed the Independent Auditor's Report of the Lexington Local School District, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 16,, 2004

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lexington Local School 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 the 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Crawford County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District restated its Permanent Improvement fund balance, due to general obligation notes improperly recorded as a fund liability in the prior year.

Page Two
Independent Auditor's Report
Lexington Local School District

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, 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's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the District, taken as a whole. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Lexington Local School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Trimble, Julian & Grube, Inc.
October 15, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

This 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 fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$1,352,190 which represents a 62.90% increase from 2003.
- General revenues accounted for \$19,842,941 in revenue or 91.31% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,888,002 or 8.69% of total revenues of \$21,730,943.
- The District had \$20,378,753 in expenses related to governmental activities; only \$1,888,002 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,842,941 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,173,253 in revenues and \$18,203,256 in expenditures. During fiscal 2004, the general fund's fund balance increased \$974,296 from \$1,722,991 to \$2,697,287.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the 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 by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *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, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. 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 fund. The District's only major governmental fund is the general fund.

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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* 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 financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Assets</u>		
Current and other assets	\$ 14,138,376	\$ 12,667,170
Capital assets	<u>2,257,113</u>	<u>2,616,903</u>
Total assets	<u>16,395,489</u>	<u>15,284,073</u>
<u>Liabilities</u>		
Current liabilities	10,524,625	10,505,298
Long-term liabilities	<u>2,368,798</u>	<u>2,628,899</u>
Total liabilities	<u>12,893,423</u>	<u>13,134,197</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,734,858	1,840,073
Restricted	84,651	112,391
Unrestricted	<u>1,682,557</u>	<u>197,412</u>
Total net assets	<u>\$ 3,502,066</u>	<u>\$ 2,149,876</u>

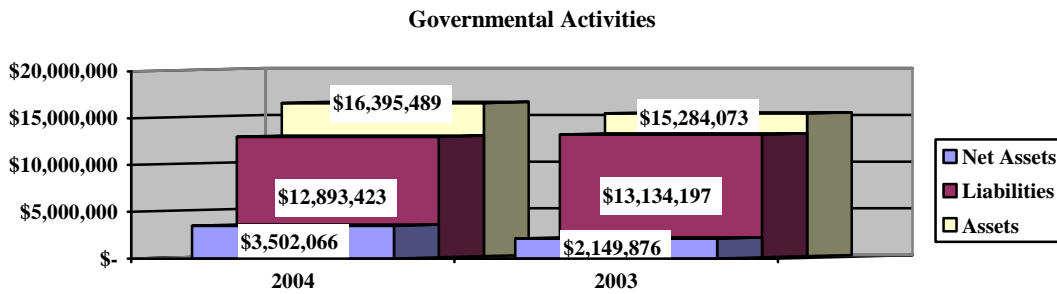
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$3,502,066. At year-end, restricted net assets were \$84,651.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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At year-end, capital assets represented 13.77% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$1,734,858. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$84,651, represents resources that are subject to external restriction on how they may be used. The table below illustrates the District's assets, liabilities and net assets at June 30, 2004 and 2003.



The table below shows the change in net assets for fiscal years 2004 and 2003.

	Change in Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,140,725	\$ 1,063,830
Operating grants and contributions	747,277	659,506
General revenues:		
Property taxes	9,554,896	8,575,799
Grants and entitlements	10,193,917	9,739,528
Investment earnings	48,042	61,963
Miscellaneous	46,086	39,214
Total revenues	<u>21,730,943</u>	<u>20,139,840</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,165,172	\$ 9,073,280
Special	1,501,510	1,408,466
Other	508,405	328,945
Support services:		
Pupil	573,055	702,397
Instructional staff	1,463,688	1,320,659
Board of education	13,958	26,060
Administration	1,823,457	1,752,500
Fiscal	474,011	419,954
Operations and maintenance	1,734,420	1,573,551
Pupil transportation	1,091,867	1,007,815
Central	75,807	57,047
Operations of non-instructional services	22,934	9,768
Extracurricular activities	1,026,839	927,950
Food service operations	867,689	807,783
Interest and fiscal charges	<u>35,941</u>	<u>41,148</u>
Total expenses	<u>20,378,753</u>	<u>19,457,323</u>
Increase in net assets	<u>\$ 1,352,190</u>	<u>\$ 682,517</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$1,352,190. Total governmental expenses of \$20,378,753 were offset by program revenues of \$1,888,002 and general revenues of \$19,842,941. Program revenues supported 9.26% of the total governmental expenses.

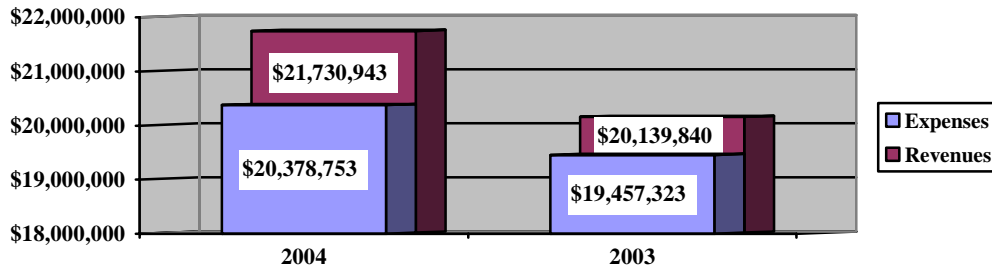
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 90.88% of total governmental revenue. Real estate property is reappraised every six years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities 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 tax revenue and unrestricted state grants and entitlements.

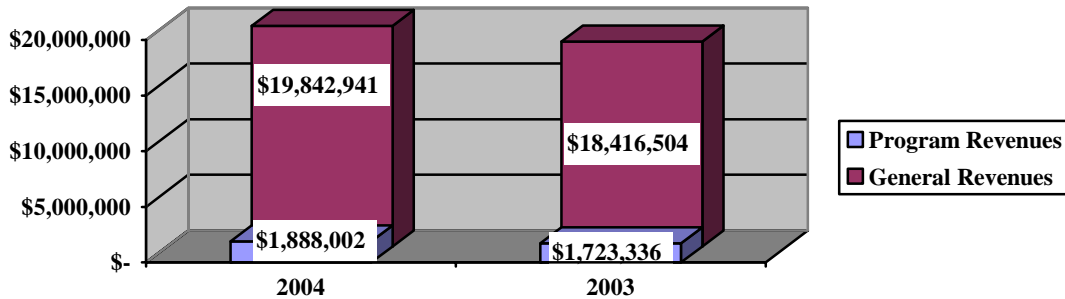
	Governmental Activities			
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 9,165,172	\$ 8,816,994	\$ 9,073,280	\$ 8,794,694
Special	1,501,510	1,268,755	1,408,466	1,295,594
Other	508,405	508,405	328,945	328,945
Support services:				
Pupil	573,055	478,243	702,397	614,375
Instructional staff	1,463,688	1,404,885	1,320,659	1,218,893
Board of education	13,958	13,958	26,060	26,060
Administration	1,823,457	1,820,995	1,752,500	1,750,724
Fiscal	474,011	473,074	419,954	419,954
Operations and maintenance	1,734,420	1,734,420	1,573,551	1,573,551
Pupil transportation	1,091,867	1,091,867	1,007,815	1,007,815
Central	75,807	52,520	57,047	27,619
Operations of non-instructional services	22,934	20,560	9,768	8,359
Extracurricular activities	1,026,839	686,738	927,950	604,672
Food service operations	867,689	83,396	807,783	21,584
Interest and fiscal charges	35,941	35,941	41,148	41,148
Total expenses	<u>\$ 20,378,753</u>	<u>\$18,490,751</u>	<u>\$ 19,457,323</u>	<u>\$17,733,987</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 94.80% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.74%. The District's taxpayers, as a whole, are by far the primary support for District's students. The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,699,104, which is higher than last year's restated total of \$1,736,684. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)
General	\$ 2,697,287	\$ 1,722,991	\$ 974,296
Other Governmental	<u>1,817</u>	<u>13,693</u>	<u>(11,876)</u>
Total	<u>\$ 2,699,104</u>	<u>\$ 1,736,684</u>	<u>\$ 962,420</u>

General Fund

The District's general fund balance increased by \$974,296. The increase in fund balance can be attributed to an increase in intergovernmental revenue and tax revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund. Certain 2003 amounts have been reclassified to conform with 2004 presentation.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,788,835	\$ 7,902,598	11.21 %
Tuition	95,413	89,863	6.18 %
Earnings on investments	46,706	60,167	(22.37) %
Classroom materials and fees	68,089	68,052	0.05 %
Intergovernmental	10,123,970	9,668,138	4.71 %
Other local revenues	<u>50,240</u>	<u>47,530</u>	5.70 %
 Total	 <u>\$ 19,173,253</u>	 <u>\$ 17,836,348</u>	 7.50 %
<u>Expenditures</u>			
Instruction	\$ 10,562,064	\$ 10,273,932	2.80 %
Support services	6,742,258	6,510,769	3.56 %
Operation of non-instructional services	14,910	1,935	670.54 %
Extracurricular activities	693,644	671,270	3.33 %
Debt service	<u>190,380</u>	<u>194,912</u>	(2.33) %
 Total	 <u>\$ 18,203,256</u>	 <u>\$ 17,652,818</u>	 3.12 %

General Fund Budgeting Highlights

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 2004, the District did not amend its general fund budget, therefore the original budget and final budget are the same. For the general fund, original and final budgeted revenues and other financing sources were \$19,000,000. Actual revenues and other financing sources for fiscal 2004 was \$19,375,516. This represents a \$375,516 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$20,065,663. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$18,364,240, which was \$1,701,423 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$2,257,113 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 118,200	\$ 118,200
Land improvements	42,653	21,850
Building and improvements	1,013,804	1,108,355
Furniture and equipment	514,211	661,626
Vehicles	<u>568,245</u>	<u>706,872</u>
Total	<u>\$ 2,257,113</u>	<u>\$ 2,616,903</u>

Total additions to capital assets for 2004 were \$94,596 and total disposals were \$5,738 (net of accumulated depreciation). The overall decrease in capital assets of \$359,790 is primarily due to depreciation expense of \$448,648 exceeding additions of \$94,596 for fiscal 2004. See Note 8 for further details on capital assets.

Debt Administration

At June 30, 2004, the District had \$472,360 in energy conservation notes and general obligation notes outstanding. Of this total, \$209,477 is due within one year and \$262,883 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2004</u>	<u>2003</u>
Energy conservation notes	\$ 435,000	\$ 605,000
General obligation notes	<u>37,360</u>	<u>60,434</u>
Total	<u>\$ 472,360</u>	<u>\$ 665,434</u>

The general obligation notes were received in 2000. These notes are scheduled to mature in fiscal year 2006 and bear an interest rate of 6.00%. Payment of principal and interest on the general obligation notes are being made from the Permanent Improvement capital projects fund. See Note 10 for further details on the District's long-term debt.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The energy conservation notes were received in 1994 and 1996 and are scheduled to mature in fiscal year 2005 and 2007. These notes bear an interest rate of 5.49% and 5.84%. Payments of principal and interest on the notes are made from the general fund and capital projects fund.

At June 30, 2004, the District's overall legal debt margin was \$26,009,578 with an unvoted debt margin of \$288,995. The District maintains an A-1 bond rating.

Current Financial Related Activities

The District is strong financially and has enjoyed great fiscal support from our community. 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.

State and federal funding play a key role in the operation of the District. Due to the large population of Special Needs students we educate, we receive a significant amount of Special Education funding. Other revenue from the federal government is helpful in funding professional development for our staff, innovative programs, reading initiatives, substance abuse education and technology updates. Besides Ohio Reads funding, we receive additional Management Information System and Drug-Free Hotline funding from the State of Ohio. Our State Foundation payments have increased annually along with the addition several years ago of Parity Aid.

Our enrollment has remained fairly steady, with only slight decreases over the years. We have a small but steady stream of revenue from local businesses which are very supportive of our schools. Lexington is primarily a residential community and our schools are widely considered to be among the premier schools in Richland County, routinely earning either excellent or effective 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 students who graduate from our school.

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 citizen's taxpayers, and 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, Treasurer of Lexington Local School District, 103 Clever Lane, Lexington, Ohio 44904.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,070,113
Cash in segregated account	28,939
Receivables:	
Taxes	8,944,628
Accounts	14,278
Intergovernmental	32,579
Materials and supplies inventory	47,839
Capital assets:	
Land	118,200
Depreciable capital assets, net	2,138,913
Total capital assets	2,257,113
Total assets.	16,395,489
Liabilities:	
Accounts payable.	11,215
Accrued wages and benefits	2,140,753
Pension obligation payable.	463,511
Intergovernmental payable	100,935
Deferred revenue	7,564,867
Accrued interest payable	8,444
Matured bonds payable.	28,939
Claims payable	205,961
Long-term liabilities:	
Due within one year.	487,832
Due in more than one year	1,880,966
Total liabilities	12,893,423
Net Assets:	
Invested in capital assets, net of related debt.	1,734,858
Restricted for:	
BWC refunds.	81,351
Other purposes	3,300
Unrestricted.	1,682,557
Total net assets	\$ 3,502,066

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 9,165,172	\$ 210,485	\$ 137,693	\$ (8,816,994)
Special	1,501,510	-	232,755	(1,268,755)
Other	508,405	-	-	(508,405)
Support services:				
Pupil	573,055	-	94,812	(478,243)
Instructional staff	1,463,688	-	58,803	(1,404,885)
Board of education.	13,958	-	-	(13,958)
Administration.	1,823,457	-	2,462	(1,820,995)
Fiscal	474,011	-	937	(473,074)
Operations and maintenance	1,734,420	-	-	(1,734,420)
Pupil transportation	1,091,867	-	-	(1,091,867)
Central	75,807	-	23,287	(52,520)
Operation of non-instructional services	22,934	-	2,374	(20,560)
Extracurricular activities	1,026,839	340,101	-	(686,738)
Food service operations	867,689	590,139	194,154	(83,396)
Interest and fiscal charges	35,941	-	-	(35,941)
Totals	\$ 20,378,753	\$ 1,140,725	\$ 747,277	(18,490,751)

General Revenues:

Property taxes levied for:	
General purposes	8,948,440
Capital projects	606,456
Grants and entitlements not restricted to specific programs	
Investment earnings	10,193,917
Miscellaneous	48,042
	<u>46,086</u>
Total general revenues	19,842,941
Change in net assets	1,352,190
Net assets at beginning of year	2,149,876
Net assets at end of year	\$ 3,502,066

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,143,578	\$ 215,758	\$ 4,359,336
Cash in segregated account	-	28,939	28,939
Receivables:			
Taxes	8,353,709	590,919	8,944,628
Accounts	10,034	246	10,280
Intergovernmental	-	32,579	32,579
Interfund loan	116,914	-	116,914
Materials and supplies inventory	31,227	16,612	47,839
Restricted assets:			
Equity in pooled cash and cash equivalents	81,351	-	81,351
Total assets	\$ 12,736,813	\$ 885,053	\$ 13,621,866
Liabilities:			
Accounts payable	\$ 7,776	\$ 3,439	\$ 11,215
Accrued wages and benefits	2,062,100	78,653	2,140,753
Compensated absences payable	98,964	22,213	121,177
Pension obligation payable	271,724	11,028	282,752
Intergovernmental payable	45,814	55,121	100,935
Interfund loan payable	-	116,914	116,914
Matured bonds payable	-	28,939	28,939
Deferred revenue	7,553,148	566,929	8,120,077
Total liabilities	10,039,526	883,236	10,922,762
Fund Balances:			
Reserved for encumbrances	55,570	29,820	85,390
Reserved for materials and supplies inventory	31,227	16,612	47,839
Reserved for property tax unavailable for appropriation	646,463	45,734	692,197
Reserved for BWC refunds	81,351	-	81,351
Unreserved, undesignated (deficit), reported in:			
General fund	1,882,676	-	1,882,676
Special revenue funds	-	(57,582)	(57,582)
Capital projects funds	-	(32,767)	(32,767)
Total fund balances	2,697,287	1,817	2,699,104
Total liabilities and fund balances	\$ 12,736,813	\$ 885,053	\$ 13,621,866

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 2,699,104
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,257,113
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 522,631	
Intergovernmental revenue	<u>32,579</u>	
Total		555,210
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		427,463
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation notes	37,360	
Energy conservation notes	435,000	
Compensated absences	1,688,006	
Pension obligation payable	180,759	
Capital lease obligation	87,255	
Accrued interest payable	<u>8,444</u>	
Total		<u>(2,436,824)</u>
Net assets of governmental activities		<u><u>\$ 3,502,066</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 8,788,835	\$ 594,988	\$ 9,383,823
Tuition.	95,413	-	95,413
Earnings on investments.	46,706	324	47,030
Charges for services.	-	590,139	590,139
Extracurricular.	-	314,894	314,894
Classroom materials and fees	68,089	-	68,089
Other local revenues	50,240	68,036	118,276
Intergovernmental - State	10,123,970	209,300	10,333,270
Intergovernmental - Federal.	-	575,345	575,345
Total revenues	19,173,253	2,353,026	21,526,279
Expenditures:			
Current:			
Instruction:			
Regular	8,799,714	388,336	9,188,050
Special.	1,253,945	267,048	1,520,993
Other	508,405	-	508,405
Support Services:			
Pupil.	464,945	114,123	579,068
Instructional staff	1,392,530	92,103	1,484,633
Board of education	15,350	-	15,350
Administration.	1,766,016	91,982	1,857,998
Fiscal	454,754	15,784	470,538
Operations and maintenance.	1,640,340	27,903	1,668,243
Pupil transportation	961,218	682	961,900
Central.	47,105	28,702	75,807
Food service operations	-	845,355	845,355
Operation of non-instructional services	14,910	2,800	17,710
Extracurricular activities.	693,644	331,394	1,025,038
Debt service:			
Principal retirement	154,575	123,074	277,649
Interest and fiscal charges	35,805	3,276	39,081
Total expenditures	18,203,256	2,332,562	20,535,818
Net change in fund balances	969,997	20,464	990,461
Fund balances at beginning of year			
(restated)	1,722,991	13,693	1,736,684
Increase (decrease) in reserve for inventory.	4,299	(32,340)	(28,041)
Fund balances at end of year	\$ 2,697,287	\$ 1,817	\$ 2,699,104

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$ 990,461
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$448,648) exceeds capital outlays (\$94,596) in the current period.	(354,052)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.	(5,738)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.	(28,041)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	203,652
Repayment of note and lease principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.	277,649
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.	3,140
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(55,294)
The 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. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.	320,413
Change in net assets of governmental activities	<u>\$ 1,352,190</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 8,624,123	\$ 8,624,123	\$ 8,794,570	\$ 170,447
Tuition.	86,311	86,311	88,017	1,706
Earnings on investments.	45,801	45,801	46,706	905
Classroom materials and fees	66,769	66,769	68,089	1,320
Other local revenues.	47,334	47,334	48,269	935
Intergovernmental - State	9,927,758	9,927,758	10,123,970	196,212
Total revenues.	<u>18,798,096</u>	<u>18,798,096</u>	<u>19,169,621</u>	<u>371,525</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,685,083	9,685,083	8,863,324	821,759
Special.	1,350,281	1,350,281	1,235,856	114,425
Other	566,403	566,403	518,405	47,998
Support Services:				
Pupil.	508,781	508,781	465,666	43,115
Instructional staff	1,503,189	1,503,189	1,375,807	127,382
Board of education	19,969	19,969	18,277	1,692
Administration.	1,904,432	1,904,432	1,743,048	161,384
Fiscal	498,317	498,317	456,089	42,228
Operations and maintenance.	1,796,546	1,796,546	1,644,304	152,242
Pupil transportation	1,051,154	1,051,154	962,078	89,076
Central.	51,466	51,466	47,105	4,361
Operation of non-instructional services	14,520	14,520	13,290	1,230
Extracurricular activities.	779,776	779,776	713,697	66,079
Debt Service:				
Principal retirement	168,887	168,887	154,575	14,312
Interest and fiscal charges.	39,120	39,120	35,805	3,315
Total expenditures	<u>19,937,924</u>	<u>19,937,924</u>	<u>18,247,326</u>	<u>1,690,598</u>
Excess of revenues over (under) expenditures.	<u>(1,139,828)</u>	<u>(1,139,828)</u>	<u>922,295</u>	<u>2,062,123</u>
Other financing sources (uses):				
Refund of prior year expenditure	25,393	25,393	25,895	502
Advances in.	176,511	176,511	180,000	3,489
Advances (out)	(127,739)	(127,739)	(116,914)	10,825
Total other financing sources (uses)	<u>74,165</u>	<u>74,165</u>	<u>88,981</u>	<u>14,816</u>
Net change in fund balance	(1,065,663)	(1,065,663)	1,011,276	2,076,939
Fund balance at beginning of year.	3,085,478	3,085,478	3,085,478	-
Prior year encumbrances appropriated	64,538	64,538	64,538	-
Fund balance at end of year	<u>\$ 2,084,353</u>	<u>\$ 2,084,353</u>	<u>\$ 4,161,292</u>	<u>\$ 2,076,939</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 629,426
Receivables:	
Accounts	<u>3,998</u>
Total assets	<u>633,424</u>
Liabilities:	
Claims payable	<u>205,961</u>
Total liabilities	<u>205,961</u>
Net assets:	
Unrestricted	<u>427,463</u>
Total net assets	<u><u>\$ 427,463</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 2,504,498
Total operating revenues	<u>2,504,498</u>
Operating expenses:	
Purchased services.	359,568
Claims expense	<u>1,825,529</u>
Total operating expenses.	<u>2,185,097</u>
Operating income	<u>319,401</u>
Nonoperating revenues:	
Interest revenue	<u>1,012</u>
Total nonoperating revenues.	<u>1,012</u>
Change in net assets	320,413
Net assets at beginning of year.	<u>107,050</u>
Net assets at end of year.	<u><u>\$ 427,463</u></u>

E ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 2,510,410
Cash payments for contractual services	(359,568)
Cash payments for claims expenses	(1,937,979)
	212,863
 Net cash provided by operating activities	
	212,863
 Cash flows from investing activities:	
Interest received	940
	940
 Net cash provided by investing activities	
	940
Net increase in cash and cash equivalents	213,803
Cash and cash equivalents at beginning of year.	415,623
Cash and cash equivalents at end of year	\$ 629,426
	629,426
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 319,401
 Changes in assets and liabilities:	
Decrease in accounts receivable	5,912
Decrease in claims payable	(112,450)
	(106,538)
 Net cash provided by operating activities	
	\$ 212,863
	212,863

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 41,833
Total assets	<u>\$ 41,833</u>
Liabilities:	
Due to students	\$ 41,833
Total liabilities	<u>\$ 41,833</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT:

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
	Scholarship
Deductions:	
Scholarships awarded	\$ 5,000
Total deductions	5,000
Change in net assets	(5,000)
Net assets at beginning of year.	5,000
Net assets at end of year	\$ -

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 1900s 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 ranks as the 172nd largest by total enrollment among the 613 public school districts in the state. It currently operates 5 instructional facilities. The District employs 127 non-certified and 186 certified employees to provide services to approximately 2,819 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below:

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. 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 organizations' 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 has access to the organizations 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (Heartland)

Heartland is a joint venture among 21 school districts and 3 county boards of education. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports Heartland based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ration proportionate to their last 12 months of financial contribution. Heartland is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in Heartland because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Jerry Payne, Treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

JOINTLY GOVERNED ORGANIZATION

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. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for 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 to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; and (c) for grants and other resources whose use is restricted to a particular purpose.

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.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities 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 revenues and expenses.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private purpose trust fund is reported using the economic resources measurement focus. The Agency fund does not report a measurement focus as it does not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level.

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, 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 at the legal level of control. Any revisions that alter the fund must be approved by the Board of Education.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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

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, including proprietary 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.

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$46,706, which includes \$7,741 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	40 years
Buildings and improvements	40 years
Furniture and equipment	6 - 10 years
Vehicles	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Notes are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property taxes unavailable for appropriation and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the medical self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Estimates

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

P. 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. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation refunds. See Note 17 for details.

Q. Interfund Activity

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

R. 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 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

At July 1, 2003, the District has presented a restatement of fund balance in the Permanent Improvement capital projects fund due to general obligation notes improperly recorded as a fund liability in the prior year. This prior period adjustment does not have an effect on net assets at June 30, 2003. The effect of this adjustment on fund balance is as follows:

	Amount Previously Reported June 30, 2003	Adjustment	Restated Amount July 1, 2003
Total other governmental funds	\$ (47,377)	\$ 61,070	\$ 13,693

At July 1, 2003, the District has presented a restatement of debt balances for the Energy Conservation Notes due to the District improperly applying principal payments in prior years. This prior period restatement does not have an effect on net assets or fund balance at June 30, 2003.

B. Non-Compliance

The following fund had expenditures in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code:

	Excess
<u>Internal Service Fund</u>	
Employee Benefit Self-Insurance	\$ 47,547

C. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
<u>Nonmajor Funds</u>	
Food Service	\$ 35,512
SchoolNet Professional Development	3
Summer Intervention	53
IDEA Part B	53,527
Title I	47
Drug-Free Schools	3

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2% 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash in Segregated Account: At fiscal year-end, \$28,939 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 balance sheet and statement of net assets as "Cash in Segregated Account".

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

Deposits: At year-end, the carrying amount of the District's deposits was \$4,280,874 and the bank balance was \$4,410,956. These balances included \$1,027,854 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$228,939 was covered by federal deposit insurance or surety company bonds deposited with the District; and
2. \$4,182,017 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Reported Amount</u>	<u>Fair Value</u>
Investment in STAR Ohio	\$ 860,011	\$ 860,011
Total investments	<u>\$ 860,011</u>	<u>\$ 860,011</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,111,946	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(860,011)	860,011
Cash in segregated account	<u>28,939</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 4,280,874</u>	<u>\$ 860,011</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor capital projects	\$ 116,914
Total		<u>\$ 116,914</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

B. The District made no interfund transfers during fiscal 2004.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland County and Morrow County. 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, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$646,463 in the general fund, and \$45,734 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$475,848 in the general fund, and \$33,442 in the Permanent Improvement capital projects fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>2003 Second Half Collections</u>		<u>2004 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 283,940,960	93.17 %	\$ 263,368,686	91.13 %
Public utility personal	7,744,790	2.54	7,744,790	2.68
Tangible personal property	<u>13,071,960</u>	<u>4.29</u>	<u>17,881,830</u>	<u>6.19</u>
Total	<u>\$ 304,757,710</u>	<u>100.00</u>	<u>\$ 288,995,306</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.80		\$ 43.80	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees) intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 8,944,628
Accounts	14,278
Intergovernmental	<u>32,579</u>
Total	<u>\$ 8,991,485</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 118,200	\$ -	\$ -	\$ 118,200
<i>Capital assets, being depreciated:</i>				
Land improvements	23,000	21,378	-	44,378
Building and improvements	7,492,389	63,219	-	7,555,608
Furniture and equipment	1,458,031	9,999	(14,251)	1,453,779
Vehicles	<u>1,797,024</u>	<u>-</u>	<u>(65,386)</u>	<u>1,731,638</u>
Total capital assets, being depreciated	<u>10,770,444</u>	<u>94,596</u>	<u>(79,637)</u>	<u>10,785,403</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,150)	(575)	-	(1,725)
Building and improvements	(6,384,034)	(157,770)	-	(6,541,804)
Furniture and equipment	(796,405)	(151,676)	8,513	(939,568)
Vehicles	<u>(1,090,152)</u>	<u>(138,627)</u>	<u>65,386</u>	<u>(1,163,393)</u>
Total accumulated depreciation	<u>(8,271,741)</u>	<u>(448,648)</u>	<u>73,899</u>	<u>(8,646,490)</u>
Governmental activities capital assets, net	<u>\$ 2,616,903</u>	<u>\$ (354,052)</u>	<u>\$ (5,738)</u>	<u>\$ 2,257,113</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 177,101
Special	4,571
<u>Support Services:</u>	
Pupil	4,070
Instructional Staff	7,921
Administration	3,456
Fiscal	731
Operations and Maintenance	90,329
Pupil Transportation	125,310
Non-instructional Services	5,224
Extracurricular Activities	26,493
Food Service Operation	<u>3,442</u>
Total depreciation expense	<u>\$ 448,648</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the previous year, the District entered into a capitalized lease for phone equipment. This lease agreement met the criteria of a 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 have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of phone equipment have been capitalized in the amount of \$261,852. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$84,575 paid by the general fund.

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, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 90,022
Total minimum lease payments	90,022
Less amount representing interest	<u>(2,767)</u>
Total	<u>\$ 87,255</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u>	<u>Restated</u>			<u>Balance</u>	<u>Amounts</u>
	<u>Rate</u>	<u>Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u>	<u>Due in</u>
		<u>06/30/03</u>			<u>06/30/04</u>	<u>One Year</u>
Governmental Activities:						
<u>General Obligation Notes:</u>						
Energy conservation notes	5.49%	\$ 135,000	\$ -	\$ (65,000)	\$ 70,000	\$ 70,000
Energy conservation notes	5.84%	470,000	-	(105,000)	365,000	115,000
General obligation notes	6.00%	<u>60,434</u>	<u>-</u>	<u>(23,074)</u>	<u>37,360</u>	<u>24,477</u>
Total general obligation notes payable		<u>665,434</u>	<u>-</u>	<u>(193,074)</u>	<u>472,360</u>	<u>209,477</u>
<u>Other Long-Term Obligations:</u>						
Capital lease obligation		171,830	-	(84,575)	87,255	87,255
Compensated absences		<u>1,791,635</u>	<u>215,538</u>	<u>(197,990)</u>	<u>1,809,183</u>	<u>191,100</u>
Total other long-term obligations		<u>1,963,465</u>	<u>215,538</u>	<u>(282,565)</u>	<u>1,896,438</u>	<u>278,355</u>
Total governmental activities		<u>\$ 2,628,899</u>	<u>\$ 215,538</u>	<u>\$ (475,639)</u>	<u>\$ 2,368,798</u>	<u>\$ 487,832</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Notes: On August 15, 1994, the District issued \$550,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a 10-year period with final maturity during fiscal year 2005. The notes will be retired from the general fund.

Energy Conservation Notes: July 15, 1996, the District issued \$995,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a 10-year period with final maturity during fiscal year 2007. The notes will be retired from the Permanent Improvement capital projects fund and the general fund.

General Obligation Notes: In August 2000, the District issued general obligation notes for the purchase of musical instruments. The notes will be retired from the Permanent Improvement capital projects fund.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

<u>Year Ended</u>	<u>Energy Conservation Notes</u>			<u>General Obligation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 185,000	\$ 20,223	\$ 205,223	\$ 24,477	\$ 1,874	\$ 26,351
2006	120,000	11,370	131,370	12,883	384	13,267
2007	<u>130,000</u>	<u>3,900</u>	<u>133,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 435,000</u>	<u>\$ 35,493</u>	<u>\$ 470,493</u>	<u>\$ 37,360</u>	<u>\$ 2,258</u>	<u>\$ 39,618</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 effects of these debt limitations at June 30, 2004 are a voted debt margin of \$26,009,578, an unvoted debt margin of \$288,995, and an energy conservation debt margin of \$2,165,958.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - 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 and School Employees Retirement System.

B. Life Insurance

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

NOTE 12 - 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 2004:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ -
Aggregate	3,000,000	-
Fleet:		
Comprehensive	1,000,000	500
Collision	1,000,000	500
Building and contents	40,447,714	2,500

Settled claims have not exceeded this commercial coverage in any of the past three years. The aggregate general liability coverage decreased from \$5,000,000 to \$3,000,000 in fiscal year 2004. There has been no other significant reductions in coverage from the previous year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT - (Continued)

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. The claims liability of \$205,961 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be reported. Changes in claims activity for the current and past fiscal year is as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2004	\$ 318,411	\$ 1,825,529	\$ (1,937,979)	\$ 205,961
2003	295,748	1,859,769	(1,837,106)	318,411

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services).

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 Center 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
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$368,912, \$353,962, and \$337,680, respectively; 48.22% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$191,028 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,246,534, \$1,229,856, and \$1,163,191, respectively; 82.43% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$219,076 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$89,038 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$274.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$172,018 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 1,011,276
Net adjustment for revenue accruals	3,632
Net adjustment for expenditure accruals	(19,567)
Net adjustment for other sources/(uses)	(88,981)
Adjustment for encumbrances	<u>63,637</u>
GAAP basis	<u>\$ 969,997</u>

NOTE 16 - 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 not involved in litigation as either plaintiff or defendant.

C. State School Funding Decision

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 17 - 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, 2004, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ (904,337)	\$ (370,000)	\$ 81,351
Current year set-aside requirement	387,553	387,553	-
Offsets	-	(495,096)	-
Offset - debt related levy for capital	-	(100,000)	-
Qualifying disbursements	<u>(780,541)</u>	<u>(991,037)</u>	<u>-</u>
Total	<u>\$ (1,297,325)</u>	<u>\$ (1,568,580)</u>	<u>\$ 81,351</u>
Balance carried forward to FY 2005	<u>\$ (1,297,325)</u>	<u>\$ (470,000)</u>	<u>\$ 81,351</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had debt related offsets that may be carried forward to future years. Excess qualifying disbursements may not be carried forward.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	<u>\$ 81,351</u>
Total restricted assets	<u>\$ 81,351</u>

SUPPLEMENTAL DATA

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Distribution	10.550	N/A	\$ -	\$ 51,849	\$ -	\$ 51,849
(A), (C) National School Lunch	10.555	049437-LLP4-2003	33,728	-	33,728	-
(A), (C) National School Lunch	10.555	049437-LLP4-2004	104,656	-	104,656	-
Total U.S. Department of Agriculture and Nutrition Cluster			<u>138,384</u>	<u>51,849</u>	<u>138,384</u>	<u>51,849</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	049437-C1S1-2004	<u>54,920</u>		<u>54,920</u>	
IDEA Part B Special Education	84.027	049437-6BSF-2004	<u>272,920</u>		<u>272,920</u>	
State Grants for Innovative Programs	84.298	049437-C2S1-2003	3,028		2,551	
State Grants for Innovative Programs	84.298	049437-C2S1-2004	15,709		14,074	
State Grants for Innovative Programs			<u>18,737</u>		<u>16,625</u>	
Safe and Drug-Free Schools	84.186	049437-DRS1-2004	7,650		7,650	
Title II- Technology Literacy Challenge	84.318	049437-TJS1-2004	<u>1,221</u>		<u>1,221</u>	
(E) School Renovation, IDEA and Technology	84.352A	049437-ATS2-2002	(86)		-	
(E) School Renovation, IDEA and Technology	84.352A	049437-ATS3-2002	(72)		-	
Total School Renovation, IDEA and Technology			<u>(158)</u>		<u>-</u>	
(F) Title II-A- Improving Teacher Quality	84.367	049437-TRS1-2003	(13,529)		-	
Title II-A- Improving Teacher Quality	84.367	049437-TRS1-2004	46,220		38,325	
Total Title II-A			<u>32,691</u>		<u>38,325</u>	
Total U.S. Department of Education			<u>387,981</u>		<u>391,661</u>	
Total Federal Financial Assistance			<u>\$ 526,365</u>	<u>\$ 51,849</u>	<u>\$ 530,045</u>	<u>\$ 51,849</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
 (C) Co-mingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (D) This schedule was prepared on the cash basis of accounting.
 (E) Repayment of Unspent Funds
 (F) This amount was carried over to FY 2004.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Lexington Local School District as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. During the fiscal year ended June 30, 2004, the Lexington Local School District restated its Permanent Improvement fund balance due to general obligation notes improperly recorded as a fund liability in the prior year. 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

In planning and performing our audit, we considered Lexington Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Lexington Local School District in a separate letter dated October 15, 2004.

Board of Education
Lexington Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the governmental activities, its major fund, and the aggregate remaining fund information 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* which is described in the accompanying schedule of findings as item 2004-LLSD-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of Lexington Local School District in a separate letter dated October 15, 2004.

This report is intended solely for the information of the Board and management of the Lexington Local School District, 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.

Trimble, Julian & Grube, Inc.
October 15, 2004

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

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

Compliance

We have audited the compliance of the Lexington Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2004. During the fiscal year ended June 30, 2004, the Lexington Local School District restated its Permanent Improvement fund balance due to general obligation notes improperly recorded as a fund liability in the prior year. The Lexington Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Lexington Local School District's management. Our responsibility is to express an opinion on the Lexington Local School District's compliance based on our audit.

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

Board of Education
Lexington Local School District

In our opinion, Lexington Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management, the Board of Education of Lexington Local School District, 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.

Trimble, Julian & Grube, Inc.
October 15, 2004

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

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

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

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

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

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

Finding Number	2004-LLSD - 001
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the Lexington Local School District had expenditures exceeding appropriations in the following fund:

	<u>Excess</u>
<u>Internal Service Fund</u>	
Employee Benefit Self-Insurance	\$ 47,547

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board of Education. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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

**STATUS OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-LLSD-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed estimated resources.	Yes	N/A



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**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
DECEMBER 28, 2004**