

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005***

JUDY STAHL, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Lexington Local School District, Richland County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 5, 2006

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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, 2005, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County, as of June 30, 2005, 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 disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. In addition, during the year ended June 30, 2005, the District restated its Governmental Activities fund balance, due to a reappraisal of capital assets.

Page Two
Independent Auditor's Report
Lexington Local School District

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of the District's internal control over financial reporting and on 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 that collectively comprise Lexington Local School District's basic financial statements. 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.



Julian & Grube, Inc.
December 2, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$463,682 which represents a 5.85% decrease from 2004.
- General revenues accounted for \$19,963,174 in revenue or 90.58% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,076,505 or 9.42% of total revenues of \$22,039,679.
- The District had \$22,503,361 in expenses related to governmental activities; only \$2,076,505 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,963,174 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,446,905 in revenues and \$19,634,824 in expenditures. During fiscal 2005, the general fund's fund balance decreased \$174,621 from \$2,556,180 to \$2,381,559.

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.

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED

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.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

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 a separate Statements of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-50 of this report.

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 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 13,761,978	\$ 14,138,376
Capital assets	<u>6,253,913</u>	<u>6,681,982</u>
Total assets	<u>20,015,891</u>	<u>20,820,358</u>
<u>Liabilities</u>		
Current liabilities	10,476,135	10,524,625
Long-term liabilities	<u>2,076,503</u>	<u>2,368,798</u>
Total liabilities	<u>12,552,638</u>	<u>12,893,423</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	6,003,913	6,159,727
Restricted	210,422	84,651
Unrestricted	<u>1,248,918</u>	<u>1,682,557</u>
Total net assets	<u>\$ 7,463,253</u>	<u>\$ 7,926,935</u>

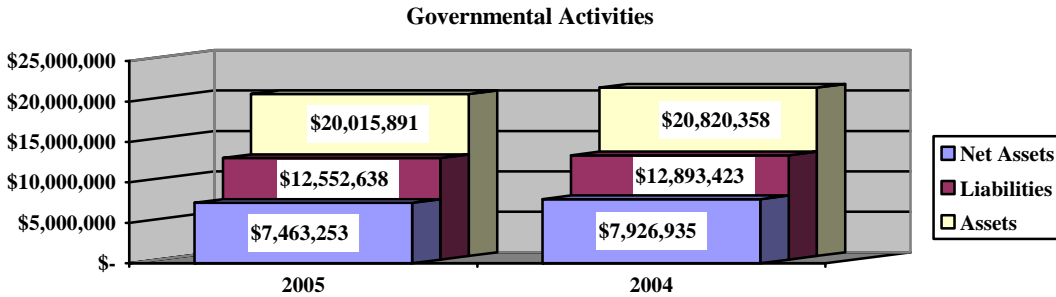
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$7,463,253. At year-end, unrestricted net assets were \$1,248,918.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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At year-end, capital assets represented 31.24% 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, 2005 were \$6,003,913. 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, \$210,422, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,248,918 may be used to meet the District's ongoing obligations to the students and creditors. The table below illustrates the District's assets, liabilities and net assets at June 30, 2005 and 2004:



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,095,554	\$ 1,140,725
Operating grants and contributions	953,336	747,277
Capital grants and contributions	27,615	-
General revenues:		
Property taxes	9,584,524	9,554,896
Grants and entitlements	10,190,230	10,193,917
Investment earnings	90,720	48,042
Other	97,700	46,086
Total revenues	\$ 22,039,679	\$ 21,730,943

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Change in Net Assets

	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,972,887	\$ 9,165,172
Special	1,819,984	1,501,510
Other	550,191	508,405
Support services:		
Pupil	606,844	573,055
Instructional staff	1,639,202	1,463,688
Board of education	23,445	13,958
Administration	1,830,180	1,823,457
Fiscal	441,791	474,011
Business	11,778	-
Operations and maintenance	2,038,120	1,734,420
Pupil transportation	1,155,771	1,091,867
Central	81,272	75,807
Operations of non-instructional services	40,924	22,934
Extracurricular activities	1,408,452	1,026,839
Food service operations	861,543	867,689
Interest and fiscal charges	<u>20,977</u>	<u>35,941</u>
Total expenses	<u>22,503,361</u>	<u>20,378,753</u>
Change in net assets	(463,682)	1,352,190
Net assets at beginning of year	<u>7,926,935</u>	<u>6,574,745</u>
Net assets at end of year	<u>\$ 7,463,253</u>	<u>\$ 7,926,935</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$463,682. Total governmental expenses of \$22,503,361 were offset by program revenues of \$2,076,505 and general revenues of \$19,963,174. Program revenues supported 9.23% 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 89.72% of total governmental revenue. Real estate property is reappraised every six years.

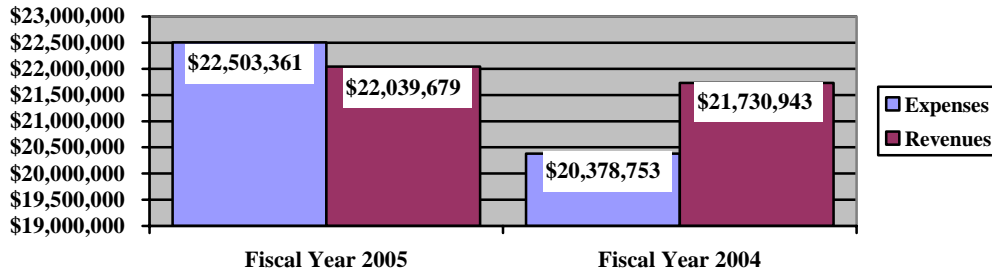
The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,343,062 or 54.85% of total governmental expenses for fiscal 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

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.

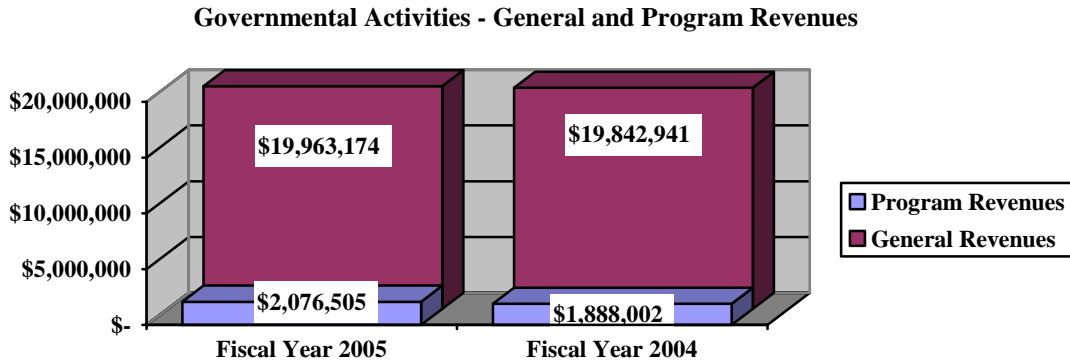
	Governmental Activities			
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 9,972,887	\$ 9,623,186	\$ 9,165,172	\$ 8,816,994
Special	1,819,984	1,480,800	1,501,510	1,268,755
Other	550,191	550,191	508,405	508,405
Support services:				
Pupil	606,844	451,418	573,055	478,243
Instructional staff	1,639,202	1,606,495	1,463,688	1,404,885
Board of education	23,445	23,445	13,958	13,958
Administration	1,830,180	1,771,547	1,823,457	1,820,995
Fiscal	441,791	441,691	474,011	473,074
Business	11,778	11,778	-	-
Operations and maintenance	2,038,120	2,038,120	1,734,420	1,734,420
Pupil transportation	1,155,771	1,155,641	1,091,867	1,091,867
Central	81,272	55,857	75,807	52,520
Operations of non-instructional services	40,924	40,924	22,934	20,560
Extracurricular activities	1,408,452	1,182,708	1,026,839	686,738
Food service operations	861,543	(27,922)	867,689	83,396
Interest and fiscal charges	<u>20,977</u>	<u>20,977</u>	<u>35,941</u>	<u>35,941</u>
Total expenses	<u>\$ 22,503,361</u>	<u>\$ 20,426,856</u>	<u>\$ 20,378,753</u>	<u>\$ 18,490,751</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 94.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.77%. 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 2005 and 2004.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,438,724, which is lower than last year's total of \$2,518,345. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 2,381,559	\$ 2,556,180	\$ (174,621)
Other Governmental	<u>57,165</u>	<u>(37,835)</u>	<u>95,000</u>
Total	<u>\$ 2,438,724</u>	<u>\$ 2,518,345</u>	<u>\$ (79,621)</u>

General Fund

The District's general fund balance decreased \$174,621 (after a restatement to the June 30, 2004 fund balance which is detailed in Note 3.A to the basic financial statements). The decrease in fund balance can be attributed to a decrease in tuition revenue, and an increase in various expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>2005</u>	<u>Restated</u>	<u>Increase/</u>	<u>Percentage</u>
	<u>Amount</u>	<u>2004</u>	<u>Decrease</u>	<u>Change</u>
		<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 9,010,002	\$ 8,788,835	\$ 221,167	2.52 %
Tuition	83,541	95,413	(11,872)	(12.44) %
Earnings on investments	89,171	46,706	42,465	90.92 %
Classroom materials and fees	82,892	68,089	14,803	21.74 %
Intergovernmental	10,122,515	10,123,970	(1,455)	(0.01) %
Other local revenues	<u>58,784</u>	<u>50,240</u>	<u>8,544</u>	17.01 %
 Total	 <u>\$ 19,446,905</u>	 <u>\$ 19,173,253</u>	 <u>\$ 273,652</u>	 1.43 %
 <u>Expenditures</u>				
Instruction	\$ 11,238,929	\$ 10,562,590	\$ 676,339	6.40 %
Support services	7,374,883	6,881,427	493,456	7.17 %
Operation of non-instructional services	40,074	14,910	25,164	168.77 %
Extracurricular activities	785,693	695,056	90,637	13.04 %
Debt service	<u>195,245</u>	<u>190,380</u>	<u>4,865</u>	2.56 %
 Total	 <u>\$ 19,634,824</u>	 <u>\$ 18,344,363</u>	 <u>\$ 1,290,461</u>	 7.03 %

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 2005, 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 2005 was \$19,026,136. This represents a \$26,136 increase over budgeted revenues.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$21,065,476. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$19,775,070, which was \$1,290,406 less than the budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$6,253,913 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 2005 balances compared to 2004 (see Note 3 to the basic financial statements for detail on the restatement of capital assets):

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Land	\$ 377,338	\$ 287,338
Land improvements	1,087,106	1,166,343
Building and improvements	3,779,580	4,087,756
Furniture and equipment	386,842	512,550
Vehicles	<u>623,047</u>	<u>627,995</u>
Total	<u>\$ 6,253,913</u>	<u>\$ 6,681,982</u>

Total additions to capital assets for 2005 were \$228,030. The overall decrease in capital assets of \$428,069 is primarily due to depreciation expense of \$656,099 exceeding additions of \$228,030 for fiscal 2005. See Note 8 for further details on capital assets.

Debt Administration

At June 30, 2005, the District had \$262,903 in energy conservation notes and general obligation notes outstanding. Of this total, \$132,903 is due within one year and \$130,000 is due in greater than one year. The following table summarizes the bonds and notes outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2005</u>	<u>2004</u>
Energy conservation notes	\$ 250,000	\$ 435,000
General obligation notes	<u>12,903</u>	<u>37,360</u>
Total	<u>\$ 262,903</u>	<u>\$ 472,360</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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 permanent improvement capital projects fund.

At June 30, 2005, the District's overall legal debt margin was \$28,625,149 with an unvoted debt margin of \$318,057. The District maintains an A-1 bond rating.

See Note 10 for further details on the District's long-term debt.

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 Lexington Local Schools. Due to the large population of Special Needs students we educate, we receive a significant amount of Title VI-B 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 EMIS 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, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,269,229
Cash in segregated accounts.	28,939
Receivables:	
Taxes	9,313,746
Accounts	3,362
Intergovernmental	79,892
Materials and supplies inventory	66,810
Capital assets:	
Land	377,338
Depreciable capital assets, net	5,876,575
Total capital assets	6,253,913
 Total assets.	 20,015,891
 Liabilities:	
Accounts payable.	26,589
Accrued wages and benefits	2,287,118
Pension obligation payable.	465,438
Intergovernmental payable	77,119
Deferred revenue	7,379,472
Accrued interest payable	4,537
Matured bonds payable.	28,939
Claims payable	206,923
Long-term liabilities:	
Due within one year.	249,891
Due in more than one year	1,826,612
 Total liabilities	 12,552,638
 Net Assets:	
Invested in capital assets, net of related debt.	6,003,913
Restricted for:	
BWC refunds	81,351
Capital projects	42,281
Locally funded programs	440
State funded programs	11,662
Federally funded programs	65,161
Student activities.	9,527
Unrestricted	1,248,918
 Total net assets	 \$ 7,463,253

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, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,972,887	\$ 176,449	\$ 145,637	\$ 27,615	\$ (9,623,186)
Special	1,819,984	-	339,184	-	(1,480,800)
Other	550,191	-	-	-	(550,191)
Support services:					
Pupil	606,844	-	155,426	-	(451,418)
Instructional staff	1,639,202	-	32,707	-	(1,606,495)
Board of education.	23,445	-	-	-	(23,445)
Administration.	1,830,180	57,062	1,571	-	(1,771,547)
Fiscal	441,791	-	100	-	(441,691)
Business.	11,778	-	-	-	(11,778)
Operations and maintenance	2,038,120	-	-	-	(2,038,120)
Pupil transportation	1,155,771	-	130	-	(1,155,641)
Central	81,272	-	25,415	-	(55,857)
Operation of non-instructional services					
	40,924	-	-	-	(40,924)
Extracurricular activities	1,408,452	225,744	-	-	(1,182,708)
Food service operations	861,543	636,299	253,166	-	27,922
Interest and fiscal charges	20,977	-	-	-	(20,977)
Totals	\$ 22,503,361	\$ 1,095,554	\$ 953,336	\$ 27,615	(20,426,856)

General Revenues:

Property taxes levied for:	
General purposes	8,975,228
Capital projects	609,296
Grants and entitlements not restricted	
to specific programs	10,190,230
Investment earnings	90,720
Miscellaneous	97,700
Total general revenues	19,963,174
Change in net assets	(463,682)
Net assets at beginning of year (restated)	7,926,935
Net assets at end of year	\$ 7,463,253

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,433,232	\$ 278,510	\$ 3,711,742
Cash in segregated accounts	-	28,939	28,939
Receivables:			
Taxes	8,719,634	594,112	9,313,746
Accounts	2,167	480	2,647
Intergovernmental	-	79,892	79,892
Due from other funds	28,946	-	28,946
Interfund loan	204,367	-	204,367
Materials and supplies inventory	44,525	22,285	66,810
Restricted assets:			
Equity in pooled cash and cash equivalents	81,351	-	81,351
Total assets	<u><u>\$ 12,514,222</u></u>	<u><u>\$ 1,004,218</u></u>	<u><u>\$ 13,518,440</u></u>
Liabilities:			
Accounts payable	\$ 23,073	\$ 3,516	\$ 26,589
Accrued wages and benefits	2,203,907	83,211	2,287,118
Compensated absences payable	55,280	-	55,280
Pension obligation payable	413,956	51,482	465,438
Intergovernmental payable	73,959	3,160	77,119
Interfund loan payable	-	204,367	204,367
Due to other funds	-	28,946	28,946
Matured bonds payable	-	28,939	28,939
Deferred revenue	7,362,488	543,432	7,905,920
Total liabilities	<u><u>10,132,663</u></u>	<u><u>947,053</u></u>	<u><u>11,079,716</u></u>
Fund Balances:			
Reserved for encumbrances	64,428	42,276	106,704
Reserved for materials and supplies inventory	44,525	22,285	66,810
Reserved for property tax unavailable for appropriation	1,204,275	81,976	1,286,251
Reserved for BWC refunds	81,351	-	81,351
Unreserved, undesignated (deficit), reported in:			
General fund	986,980	-	986,980
Special revenue funds	-	(18,819)	(18,819)
Capital projects funds	-	(70,553)	(70,553)
Total fund balances	<u><u>2,381,559</u></u>	<u><u>57,165</u></u>	<u><u>2,438,724</u></u>
Total liabilities and fund balances	<u><u>\$ 12,514,222</u></u>	<u><u>\$ 1,004,218</u></u>	<u><u>\$ 13,518,440</u></u>

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, 2005

Total governmental fund balances		\$	2,438,724
<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.			6,253,913
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	484,184	
Intergovernmental revenue		42,264	
Total			526,448
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.			269,928
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		(12,903)	
Energy conservation notes		(250,000)	
Compensated absences		(1,758,320)	
Accrued interest payable		(4,537)	
Total			(2,025,760)
Net assets of governmental activities		\$	7,463,253

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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 9,010,002	\$ 612,969	\$ 9,622,971
Tuition.	83,541	-	83,541
Charges for services.	-	636,299	636,299
Earnings on investments.	89,171	574	89,745
Extracurricular.	-	282,806	282,806
Classroom materials and fees	82,892	-	82,892
Other local revenues	58,784	48,932	107,716
Intergovernmental - state	10,122,515	232,627	10,355,142
Intergovernmental - federal.	-	806,354	806,354
Total revenues	<u>19,446,905</u>	<u>2,620,561</u>	<u>22,067,466</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,194,335	202,249	9,396,584
Special.	1,494,403	294,065	1,788,468
Other	550,191	-	550,191
Support Services:			
Pupil.	488,284	129,903	618,187
Instructional staff	1,560,931	34,082	1,595,013
Board of education	23,445	-	23,445
Administration.	1,738,142	67,534	1,805,676
Fiscal	426,385	11,128	437,513
Business	11,778	-	11,778
Operations and maintenance.	1,895,930	127,948	2,023,878
Pupil transportation	1,174,131	126	1,174,257
Central.	55,857	25,415	81,272
Food service operations	-	853,876	853,876
Operation of non-instructional services	40,074	-	40,074
Extracurricular activities.	785,693	568,557	1,354,250
Facilities acquisition and construction	-	90,000	90,000
Debt service:			
Principal retirement	172,255	124,457	296,712
Interest and fiscal charges	22,990	1,894	24,884
Total expenditures	<u>19,634,824</u>	<u>2,531,234</u>	<u>22,166,058</u>
Net change in fund balances	(187,919)	89,327	(98,592)
Fund balances (deficit)			
at beginning of year (restated)	2,556,180	(37,835)	2,518,345
Increase in reserve for inventory.	13,298	5,673	18,971
Fund balances at end of year	<u>\$ 2,381,559</u>	<u>\$ 57,165</u>	<u>\$ 2,438,724</u>

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, 2005

Net change in fund balances - total governmental funds \$ (98,592)

Amounts reported for governmental activities in the statement of activities are different because:

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 exceeds capital outlays in the current period.

Capital asset additions	\$	228,030	
Current year depreciation		(656,099)	
Total			(428,069)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed. 18,971

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		(38,447)	
Intergovernmental		9,685	
Total			(28,762)

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. 296,712

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. 3,907

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (70,314)

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. (157,535)

Change in net assets of governmental activities \$ (463,682)

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 8,441,804	\$ 8,441,804	\$ 8,453,417	\$ 11,613
Tuition.	90,812	90,812	90,937	125
Earnings on investments.	89,049	89,049	89,171	122
Classroom materials and fees	82,778	82,778	82,892	114
Other local revenues.	59,174	59,174	59,255	81
Intergovernmental - state	10,108,610	10,108,610	10,122,515	13,905
Total revenues.	<u>18,872,227</u>	<u>18,872,227</u>	<u>18,898,187</u>	<u>25,960</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,784,881	9,784,881	9,185,489	599,392
Special.	1,552,990	1,552,990	1,457,859	95,131
Other	590,354	590,354	554,191	36,163
Support Services:				
Pupil.	541,162	541,162	508,012	33,150
Instructional staff	1,573,252	1,573,252	1,476,879	96,373
Board of education	25,141	25,141	23,601	1,540
Administration.	1,890,545	1,890,545	1,774,736	115,809
Fiscal	463,788	463,788	435,378	28,410
Business	12,547	12,547	11,778	769
Operations and maintenance.	2,025,488	2,025,488	1,901,413	124,075
Pupil transportation	1,229,179	1,229,179	1,153,883	75,296
Central.	59,342	59,342	55,707	3,635
Operation of non-instructional services	42,689	42,689	40,074	2,615
Extracurricular activities.	848,430	848,430	796,458	51,972
Facilities acquisition and construction.	95,896	95,896	90,022	5,874
Debt Service:				
Principal retirement	90,547	90,547	85,000	5,547
Interest and fiscal charges.	21,542	21,542	20,223	1,319
Total expenditures	<u>20,847,773</u>	<u>20,847,773</u>	<u>19,570,703</u>	<u>1,277,070</u>
Excess of revenues over (under) expenditures.	<u>(1,975,546)</u>	<u>(1,975,546)</u>	<u>(672,516)</u>	<u>1,303,030</u>
Other financing sources (uses):				
Refund of prior year expenditure	11,020	11,020	11,035	15
Advances in.	116,753	116,753	116,914	161
Advances out	(217,703)	(217,703)	(204,367)	13,336
Total other financing sources (uses)	<u>(89,930)</u>	<u>(89,930)</u>	<u>(76,418)</u>	<u>13,512</u>
Net change in fund balance	(2,065,476)	(2,065,476)	(748,934)	1,316,542
Fund balance at beginning of year.	4,161,292	4,161,292	4,161,292	-
Prior year encumbrances appropriated	63,637	63,637	63,637	-
Fund balance at end of year	<u>\$ 2,159,453</u>	<u>\$ 2,159,453</u>	<u>\$ 3,475,995</u>	<u>\$ 1,316,542</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

		Governmental Activities - Internal Service Fund
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$	476,136
Receivables:		
Accounts		715
Total assets		476,851
Liabilities:		
Claims payable		206,923
Total liabilities		206,923
Net assets:		
Unrestricted		269,928
Total net assets	\$	269,928

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, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 2,510,990
Operating expenses:	
Purchased services.	404,451
Claims expense	2,265,049
	2,669,500
Total operating expenses.	2,669,500
Operating loss	(158,510)
	975
Nonoperating revenues:	
Interest revenue	975
Change in net assets	(157,535)
Net assets at beginning of year.	427,463
Net assets at end of year.	\$ 269,928

SEE 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, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 2,514,273
Cash payments for contractual services	(404,451)
Cash payments for claims expenses	(2,264,087)
	(154,265)
Net cash used in operating activities	
	(154,265)
Cash flows from investing activities:	
Interest received	975
	975
Net cash provided by investing activities	
	975
Net decrease in cash and cash equivalents.	
	(153,290)
Cash and cash equivalents at beginning of year.	
	629,426
Cash and cash equivalents at end of year	
	\$ 476,136
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (158,510)
Changes in assets and liabilities:	
Decrease in accounts receivable	3,283
Increase in claims payable	962
	4,245
Net cash used in operating activities	
	\$ (154,265)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 30,254
	30,254
Total assets	\$ 30,254
	30,254
Liabilities:	
Accounts payable.	\$ 701
Due to students	29,553
	29,553
Total liabilities	\$ 30,254
	30,254

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, 2005**

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 178th largest by total enrollment among the 614 public school districts in the state. It currently operates 5 instructional facilities. The District employs 130 non-certified and 184 certified employees to provide services to approximately 2,757 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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental and proprietary funds provided they do not conflict with or contradict GASB pronouncements. 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". 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 these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). 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, 2005**

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 as amended by GASB Statement No. 39, 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, 2005**

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 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 does not have any trust funds. 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, 2005**

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 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, 2005

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, 2005, but which were levied to finance fiscal year 2006 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, 2005**

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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 2005, 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 2005. 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, 2005.

Under existing Ohio statutes all investment earnings 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 2005 amounted to \$89,171, which includes \$15,093 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 District'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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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:

Description	Governmental Activities Estimated Lives
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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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 basic financial statements.

R. Parochial Schools

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

S. 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 2005.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 2,697,287	\$ 1,817	\$ 2,699,104
GASB Technical Bulletin No. 2004-2	(141,107)	(39,652)	(180,759)
Restated Fund Balance, June 30, 2004	\$ 2,556,180	\$ (37,835)	\$ 2,518,345

B. Restatement of Net Assets

The June 30, 2004 beginning net asset balance on the Statement of Net Assets has been restated from \$3,502,066 to \$7,296,935 due to a reappraisal of capital assets. See Note 8 for more detail on the capital asset adjustment.

C. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 27,979
Ohio Reads	22
Title I	122
Drug-Free Schools	6

These GAAP-basis deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur. The Summer Intervention, Title I, and miscellaneous federal grant funds did not comply with state law which does not allow for a negative cash balance at year-end (see Note 5.B.). All other funds complied with state law.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$5,365 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash in Segregated Account

At fiscal year-end, \$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 "Equity in Pooled Cash and Cash Equivalents".

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$4,267,823. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$4,297,762 of the District's bank balance of \$4,497,762 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

D. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>6 months or less</u>
STAR Ohio	\$ 55,234	\$ 55,234

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, in STAR Ohio, were assigned an AAAm money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 55,234	100.00

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and investments per footnote</u>		
Carrying amount of deposits	\$	4,267,823
Investments		55,234
Cash on hand		<u>5,365</u>
Total	\$	<u>4,328,422</u>
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$	4,298,168
Agency funds		<u>30,254</u>
Total	\$	<u>4,328,422</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 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	\$ 204,367
Total		<u>\$ 204,367</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

- B.** At June 30, 2005, the summer intervention, Title I and miscellaneous federal grants nonmajor governmental funds had negative cash balances. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

<u>Due from other fund</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Nonmajor special revenue	<u>\$ 28,946</u>
Total		<u>\$ 28,946</u>

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 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, 2005 and for which there is an enforceable legal claim.

**LEXINGTON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

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, 2005 was \$1,204,275 in the general fund, and \$81,976 in the Permanent Improvement capital projects fund. These amounts have been recorded as 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.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>2004 Second</u>		<u>2005 First</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 263,368,686	91.13	\$ 293,719,380	92.35
Public utility personal	7,744,790	2.68	7,799,240	2.45
Tangible personal property	<u>17,881,830</u>	<u>6.19</u>	<u>16,538,589</u>	<u>5.20</u>
Total	<u>\$ 288,995,306</u>	<u>100.00</u>	<u>\$ 318,057,209</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.80		\$ 43.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and 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	\$ 9,313,746
Accounts	3,362
Intergovernmental	<u>79,892</u>
Total	<u>\$ 9,397,000</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, 2005

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a reappraisal of capital assets:

	<u>Balance 06/30/04</u>	<u>Adjustments</u>	<u>Restated Balance 06/30/04</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 118,200	\$ 169,138	\$ 287,338
Total capital assets, not being depreciated	<u>118,200</u>	<u>169,138</u>	<u>287,338</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	44,378	1,701,039	1,745,417
Building and improvements	7,555,608	5,707,873	13,263,481
Furniture and equipment	1,453,779	(31,126)	1,422,653
Vehicles	1,731,638	(104,117)	1,627,521
Total capital assets, being depreciated	<u>10,785,403</u>	<u>7,273,669</u>	<u>18,059,072</u>
<i>Less: accumulated depreciation:</i>	<u>(8,646,490)</u>	<u>(3,017,938)</u>	<u>(11,664,428)</u>
Governmental activities capital assets, net	<u>\$ 2,257,113</u>	<u>\$ 4,424,869</u>	<u>\$ 6,681,982</u>

- B. Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	<u>Restated Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 287,338	\$ 90,000	\$ -	\$ 377,338
Total capital assets, not being depreciated	<u>287,338</u>	<u>90,000</u>	<u>-</u>	<u>377,338</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,745,417	-	-	1,745,417
Buildings and improvements	13,263,481	-	-	13,263,481
Furniture and equipment	1,422,653	-	-	1,422,653
Vehicles	1,627,521	138,030	-	1,765,551
Total capital assets, being depreciated	<u>18,059,072</u>	<u>138,030</u>	<u>-</u>	<u>18,197,102</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(579,074)	(79,237)	-	(658,311)
Buildings and improvements	(9,175,725)	(308,176)	-	(9,483,901)
Furniture and equipment	(910,103)	(125,708)	-	(1,035,811)
Vehicles	(999,526)	(142,978)	-	(1,142,504)
Total accumulated depreciation	<u>(11,664,428)</u>	<u>(656,099)</u>	<u>-</u>	<u>(12,320,527)</u>
Governmental activities capital assets, net	<u>\$ 6,681,982</u>	<u>\$ (428,069)</u>	<u>\$ -</u>	<u>\$ 6,253,913</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 352,031
Special	8,380

Support Services:

Pupil	8,041
Instructional Staff	5,630
Administration	25,343
Operations and Maintenance	43,727
Pupil Transportation	129,764
Extracurricular Activities	71,446
Food Service Operation	<u>11,737</u>

Total depreciation expense	<u>\$ 656,099</u>
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NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a 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 was recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$87,255 paid by the general fund. There are no future capital lease obligations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/04	Additions	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Notes:</u>						
Energy conservation notes	5.49%	\$ 70,000	\$ -	\$ (70,000)	\$ -	\$ -
Energy conservation notes	5.84%	365,000	-	(115,000)	250,000	120,000
General obligation notes	6.00%	<u>37,360</u>	<u>-</u>	<u>(24,457)</u>	<u>12,903</u>	<u>12,903</u>
Total general obligation notes payable		<u>472,360</u>	<u>-</u>	<u>(209,457)</u>	<u>262,903</u>	<u>132,903</u>
<u>Other Long-Term Obligations:</u>						
Capital lease obligation		87,255	-	(87,255)	-	-
Compensated absences		<u>1,809,183</u>	<u>195,516</u>	<u>(191,099)</u>	<u>1,813,600</u>	<u>116,988</u>
Total other long-term obligations		<u>1,896,438</u>	<u>195,516</u>	<u>(278,354)</u>	<u>1,813,600</u>	<u>116,988</u>
Total governmental activities		<u>\$ 2,368,798</u>	<u>\$ 195,516</u>	<u>\$ (487,811)</u>	<u>\$ 2,076,503</u>	<u>\$ 249,891</u>

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 were 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 was paid from the general fund. See Note 9 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005, 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>
2006	\$ 120,000	\$ 11,370	\$ 131,370	\$ 12,903	\$ 384	\$ 13,287
2007	<u>130,000</u>	<u>3,900</u>	<u>133,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 250,000</u>	<u>\$ 15,270</u>	<u>\$ 265,270</u>	<u>\$ 12,903</u>	<u>\$ 384</u>	<u>\$ 13,287</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, 2005 are a voted debt margin of \$28,625,149, an unvoted debt margin of \$318,057, and an energy conservation debt margin of \$2,599,612.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

The District had the following coverages in effect for fiscal year 2005:

<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 2005. There has been no other significant reductions in coverage from the previous year.

B. Health Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to a third party administrator who in turn pays the claims on the District's behalf. The claims liability of \$206,923 reported in the internal service fund at June 30, 2005, 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:

	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$ 205,961	\$ 2,265,049	\$ (2,264,087)	\$ 206,923
2004	318,411	1,825,529	(1,937,979)	205,961

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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - RISK MANAGEMENT - (Continued)

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.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

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 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$304,324, \$368,912 and \$353,962, respectively; 51.63% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$147,189 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (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. 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 years 2005 and 2004, 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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,220,513, \$1,246,534, and \$1,229,856, respectively; 84.37% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$190,797 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$10,230 made by the District and \$17,210 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District'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, 2005**

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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$93,886 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$154,694 during the 2005 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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	\$ (748,934)
Net adjustment for revenue accruals	548,718
Net adjustment for expenditure accruals	(131,655)
Net adjustment for other sources/(uses)	76,418
Adjustment for encumbrances	<u>67,534</u>
GAAP basis	<u>\$ (187,919)</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, 2005

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, 2005, 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, 2004	\$ (1,297,325)	\$ (470,000)	\$ 81,351
Current year set-aside requirement	392,987	392,987	-
Offset	-	(461,593)	-
Offset - debt related levy for capital	-	(115,000)	-
Qualifying disbursements	<u>(773,252)</u>	<u>(1,173,309)</u>	<u>-</u>
Total	<u>\$ (1,677,590)</u>	<u>\$ (1,826,915)</u>	<u>\$ 81,351</u>
Balance carried forward to FY 2006	<u>\$ (1,677,590)</u>	<u>\$ (585,000)</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, 2005 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, 2005**

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 Donation	10.550	N/A	\$ -	\$ 79,616	\$ -	\$ 79,616
(A), (C) National School Lunch Program	10.555	049437-LLP4-2004	36,526	-	36,526	-
(A), (C) National School Lunch Program	10.555	049437-LLP4-2005	132,884	-	132,884	-
Total U.S. Department of Agriculture and Nutrition Cluster			<u>169,410</u>	<u>79,616</u>	<u>169,410</u>	<u>79,616</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	049437-C1S1-2005	62,260		64,078	
Special Education - Grants to States	84.027	049437-6BSF-2005	427,578		416,344	
Safe and Drug-Free Schools and Communities - State Grants	84.186	049437-DRS1-2005	7,387		7,387	
(E) State Grants for Innovative Programs	84.298	049437-C2S1-2004	(1,635)		-	
State Grants for Innovative Programs	84.298	049437-C2S1-2005	11,704		10,373	
Total State Grants for Innovative Programs			<u>10,069</u>		<u>10,373</u>	
Education Technology State Grants	84.318	049437-TJS1-2005	1,877		1,969	
(F) Improving Teacher Quality State Grants	84.367	049437-TRS1-2004	(14,126)		-	
Improving Teacher Quality State Grants	84.367	049437-TRS1-2005	53,072		38,445	
Total Improving Teacher Quality State Grants			<u>38,946</u>		<u>38,445</u>	
Total U.S. Department of Education			<u>548,117</u>		<u>538,596</u>	
Total Federal Financial Assistance			<u>\$ 717,527</u>	<u>\$ 79,616</u>	<u>\$ 708,006</u>	<u>\$ 79,616</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (B) The Food Donation 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) Amount of \$1,635 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action
 (F) Amount of \$14,126 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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 (the “District”) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 2, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. In addition, during the year ended June 30, 2005, the District restated its Governmental Activities fund balance, due to a reappraisal of capital assets. 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 and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 December 2, 2005.

Board of Education
Lexington Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lexington Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a matter that we reported to the management of Lexington Local School District in a separate letter dated December 2, 2005.

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
December 2, 2005



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. In addition, during the year ended June 30, 2005, the District restated its Governmental Activities fund balance, due to a reappraisal of capital assets. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2005.

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 the 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.



Julian & Grube, Inc.
December 2, 2005

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

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program	Special Education - Grants to States: 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, 2005**

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

None.

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, 2005**

<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>
2004-LLSD-001	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	Yes	N/A



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JANUARY 19, 2006**