



Dave Yost • Auditor of State

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED

The management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2016, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The total net cash position of the District increased \$2,138,012 or 27.07% from fiscal year 2015.
- General cash receipts accounted for \$22,609,026 or 88.21% of total governmental activities cash receipts. Program specific cash receipts accounted for \$3,020,906 or 11.79% of total governmental activities cash receipts.
- The District had \$23,491,920 in cash disbursements related to governmental activities; \$3,020,906 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$22,609,026 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had cash receipts and other financing sources of \$23,182,165 in 2016. The cash disbursements and other financing uses of the general fund, totaled \$21,246,931 in 2016. The general fund's cash balance increased \$1,935,234 from a balance of \$7,139,871 to \$9,075,105.

Using this Cash Basis Basic Financial Statements (BFS)

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

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2016?" These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

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

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

The statement of net position - cash basis and the statement of activities - cash basis can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund. The analysis of the District's major governmental funds begins on page 11.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, the only difference between the net position and fund cash balances or changes in net position and changes in fund cash balances results from the consolidation of the internal service fund with governmental activities on the government-wide financial statements. Cash governmental fund statements can be found on pages 17-21 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 22-23 of this report.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and an agency fund. The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-52 of this report.

Government-Wide Financial Analysis

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

The table below provides a summary of the District's net cash position at June 30, 2016 and June 30, 2015.

	Net Cash Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 10,036,682	\$ 7,898,670
Total assets	<u>10,036,682</u>	<u>7,898,670</u>
<u>Net Cash Position</u>		
Restricted	169,955	146,832
Unrestricted	<u>9,866,727</u>	<u>7,751,838</u>
Total net cash position	<u>\$ 10,036,682</u>	<u>\$ 7,898,670</u>

The total net cash position of the District increased \$2,138,012 which represents a 27.07% increase from fiscal year 2015. The change in net cash position for fiscal year 2016 was an increase of \$2,138,012 compared to an increase of \$2,105,562 in fiscal year 2015.

A portion of the District's net cash position, \$169,955, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position of \$9,866,727 may be used to meet the District's ongoing obligations to citizens and creditors.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

The table below shows the changes in net cash position for fiscal year 2016 and 2015:

	Change in Net Position	
	Governmental Activities	Governmental Activities
	<u>2016</u>	<u>2015</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 841,881	\$ 971,994
Operating grants and contributions	<u>2,179,025</u>	<u>2,287,299</u>
Total program cash receipts	<u>3,020,906</u>	<u>3,259,293</u>
General cash receipts:		
Property and other taxes	11,649,900	11,700,255
Unrestricted grants and entitlements	10,858,511	10,863,023
Investment earnings	28,210	11,740
Other	<u>72,405</u>	<u>66,819</u>
Total general cash receipts	<u>22,609,026</u>	<u>22,641,837</u>
Total cash receipts	<u>25,629,932</u>	<u>25,901,130</u>

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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	Change in Net Position (Continued)	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,261,721	\$ 10,792,891
Special	3,669,498	3,508,739
Other	54,153	49,270
Support services:		
Pupil	1,109,109	1,094,336
Instructional staff	986,220	793,218
Board of education	76,857	118,528
Administration	1,707,478	1,704,120
Fiscal	519,059	523,781
Business	6,359	6,224
Operations and maintenance	1,738,157	2,113,729
Pupil transportation	1,155,194	1,233,883
Central	14,547	12,853
Operation of non instructional services:		
Other non-instructional services	362	54,356
Food service operations	721,536	761,670
Extracurricular	962,979	1,013,057
Facilities acquisition and construction	507,959	14,181
Debt service:		
Principal retirement	622	592
Interest and fiscal charges	<u>110</u>	<u>140</u>
Total cash disbursements	<u>23,491,920</u>	<u>23,795,568</u>
Change in net cash position	2,138,012	2,105,562
Net cash position at beginning of year	<u>7,898,670</u>	<u>5,793,108</u>
Net cash position at end of year	<u><u>\$ 10,036,682</u></u>	<u><u>\$ 7,898,670</u></u>

Governmental Activities

Governmental assets increased by \$2,138,012 in fiscal year 2016 from fiscal year 2015. Total governmental disbursements of \$23,491,920 were offset by program receipts of \$3,020,906 and general receipts of \$22,609,026. Program receipts supported 12.86% of the total governmental disbursements.

General cash receipts decreased \$32,811 and program specific receipts in the form of operating grants and contributions decreased \$108,274 in fiscal year 2016.

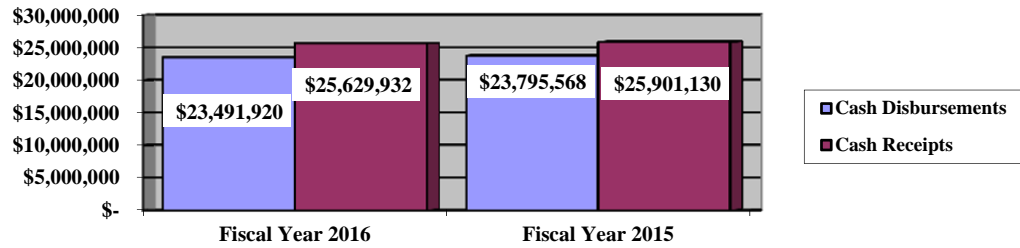
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These receipt sources represent 87.82% of total governmental receipts. Real estate property is reappraised every six years.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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(Continued)

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2016 and 2015.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



As can be seen above, cash receipts were sufficient to cover cash disbursements in fiscal year 2016.

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

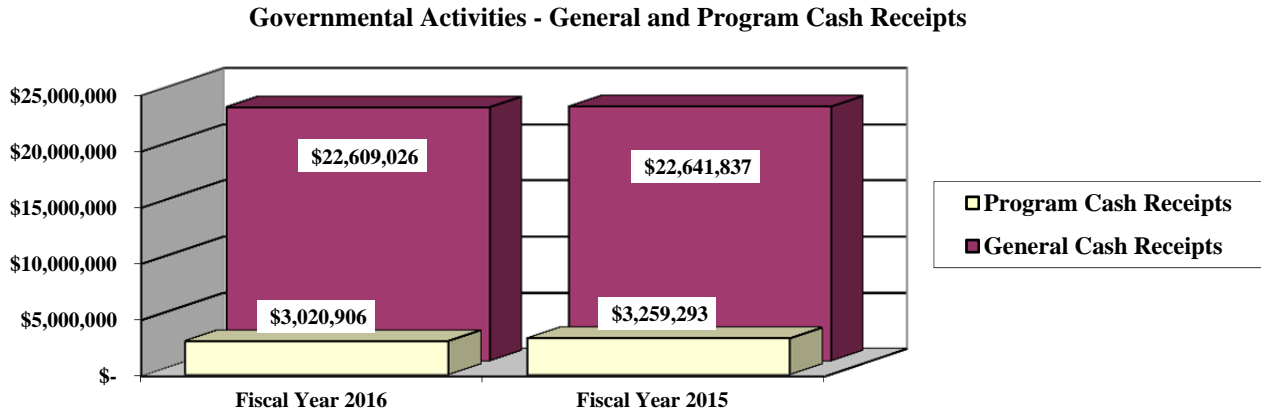
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
Cash disbursements:				
Instruction:				
Regular	\$ 10,261,721	\$ 10,019,936	\$ 10,792,891	\$ 10,410,849
Special	3,669,498	2,183,111	3,508,739	1,974,276
Other	54,153	54,153	49,270	49,270
Support services:				
Pupil	1,109,109	976,615	1,094,336	947,191
Instructional staff	986,220	986,041	793,218	793,054
Board of education	76,857	76,857	118,528	118,528
Administration	1,707,478	1,558,340	1,704,120	1,570,241
Fiscal	519,059	519,059	523,781	523,781
Business	6,359	6,359	6,224	6,224
Operations and maintenance	1,738,157	1,736,850	2,113,729	2,112,797
Pupil transportation	1,155,194	1,112,904	1,233,883	1,164,949
Central	14,547	5,547	12,853	3,853
Operation of non instructional services:				
Other non-instructional services	362	(838)	54,356	54,356
Food service operations	721,536	(5,679)	761,670	19,028
Extracurricular	962,979	733,068	1,013,057	772,965
Facilities acquisition and construction	507,959	507,959	14,181	14,181
Debt service:				
Principal retirement	622	622	592	592
Interest and fiscal charges	110	110	140	140
Total	\$ 23,491,920	\$ 20,471,014	\$ 23,795,568	\$ 20,536,275

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

The dependence upon general cash receipts for governmental activities is apparent; with 87.14% of cash disbursements supported through taxes and other general cash receipts during 2016.

The graph below presents the District's governmental activities cash receipts for fiscal years 2016 and 2015.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The District's governmental funds reported a combined fund balance of \$9,245,060, which is a higher balance than last year's total balance of \$7,286,703. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and June 30, 2015, for all major and nonmajor governmental funds.

	Fund Balance June 30, 2016	Fund Balance June 30, 2015	Change
Major fund:			
General	\$ 9,075,105	\$ 7,139,871	\$ 1,935,234
Other nonmajor governmental funds	<u>169,955</u>	<u>146,832</u>	<u>23,123</u>
Total	<u>\$ 9,245,060</u>	<u>\$ 7,286,703</u>	<u>\$ 1,958,357</u>

General Fund

The general fund, the District's largest major fund, had cash receipts and other financing sources of \$23,182,165 in 2016. The cash disbursements and other financing uses of the general fund, totaled \$21,246,931 in 2016. The general fund's fund balance increased \$1,935,234 from 2015 to 2016. The increase in fund balance can be attributed to an increase in revenues received from the state.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

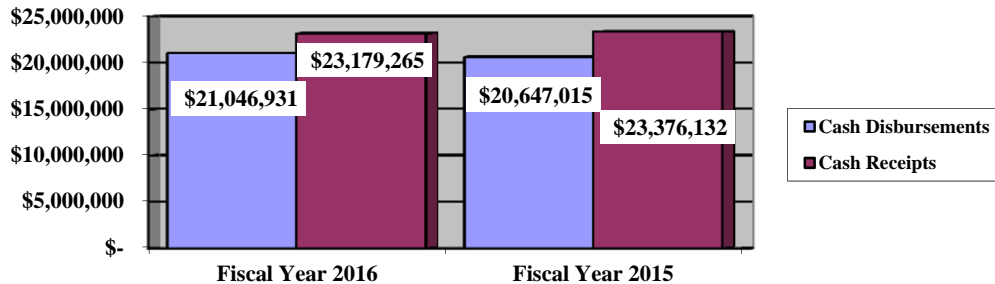
The table below assists in illustrating the cash receipts of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 11,061,026	\$ 11,109,308	(0.43) %
Tuition	145,544	183,399	(20.64) %
Earnings on investments	26,379	10,360	154.62 %
Other local revenues	208,447	294,534	(29.23) %
Intergovernmental - State	<u>11,737,869</u>	<u>11,778,531</u>	(0.35) %
Total	<u>\$ 23,179,265</u>	<u>\$ 23,376,132</u>	(0.84) %

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

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 13,442,312	\$ 13,081,967	2.75 %
Support services	6,835,251	6,825,957	0.14 %
Operation of non-instruction	362	1,159	(68.77) %
Extracurricular	719,253	723,019	(0.52) %
Facilities acquisition and construction	49,021	14,181	245.68 %
Debt service	<u>732</u>	<u>732</u>	- %
Total	<u>\$ 21,046,931</u>	<u>\$ 20,647,015</u>	1.94 %

General Fund - Total Cash Receipts vs. Total Cash Disbursements



Budgeting Highlights - General Fund

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

During the course of fiscal year 2016, the District amended its general fund budget numerous times. For the general fund, original budgeted receipts and other financing sources were \$23,322,655 and final budgeted receipts and other financing sources were \$23,000,239. The actual receipts and other financing sources were \$23,175,550 for fiscal year 2016, which was \$175,311 more than the final budget receipts.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

General fund original and final appropriations were \$22,686,044. The actual budget basis disbursements and other financing uses for fiscal year 2016 totaled \$21,414,907, which was \$1,271,137 less than the final budget appropriations. The decrease is due primarily to the decrease in actual disbursements related to instruction and support services.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

At June 30, 2016, the District had \$1,699 in long-term obligations outstanding; of this amount, \$654 is due within one year. A summary of the District's long-term obligations outstanding at June 30, 2016 and 2015:

	Governmental Activities 2016	Governmental Activities 2015
MT Copier Lease	\$ 1,699	\$ 2,321
Total long-term obligations	\$ 1,699	\$ 2,321

For further information regarding the District's long-term obligations, refer to Note 7 and 8 to the basic financial statements

Current Financial Related Activities

Dating back to the end of fiscal year 2011, the District's general fund was in an unstable financial position; however, the voters passed a new 5-year emergency operating levy in November 2011. The District began receiving revenues from that levy in March 2012. The receipts from that levy, coupled with spending reductions, allowed the District to have a balanced general fund budget in fiscal year 2013 and continuing into fiscal year 2016. In May of 2014 and March of 2016, the citizens of the District passed two separate renewal 10-year emergency operating levies with 72% and 68% support, respectively, once again demonstrating the community's strong support of the District and the students served.

Revenues from State foundation remain steady but are not providing any significant increases to assist with increasing expenditures. The District is fortunate to have a continuing permanent improvement levy which provides necessary resources to keep the facilities, school buses, technology, textbooks and instructional equipment updated for students.

State and federal funding play a key role in the operation of the District. Due to the population of special needs students, the District receives a significant amount of IDEA funding. Other receipts from the federal government in the way of grants is relatively nominal, but nevertheless helpful in providing innovative programs, reading initiatives, technology updates and professional development for staff.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Student enrollment has remained fairly steady, with some slight decreases over the years. The District is in a primarily residential community and the schools are widely considered to be among the best in north central Ohio, routinely earning excellent ratings on the State Report Card. The District's cost per pupil is among the lowest for area schools and the District takes great pride in the quality of education it provides.

In conclusion, the District has committed itself to fiscal responsibility and takes special care to ensure that money is spent on items and services that are most crucial to the long-term success of the District and, more importantly, the children that it serves.

Contacting the District's Financial Management

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 10,036,682
Total assets.	10,036,682
 Net cash position:	
Restricted for:	
Capital projects	117,721
Debt service.	1,926
Federally funded programs	21,385
Student activities	26,369
Other purposes	2,554
Unrestricted	9,866,727
Total net cash position.	\$ 10,036,682

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Changes Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,261,721	\$ 187,397	\$ 54,388	\$ (10,019,936)
Special	3,669,498	30,111	1,456,276	(2,183,111)
Other	54,153	-	-	(54,153)
Support services:				
Pupil	1,109,109	-	132,494	(976,615)
Instructional staff	986,220	-	179	(986,041)
Board of education	76,857	-	-	(76,857)
Administration	1,707,478	34,698	114,440	(1,558,340)
Fiscal	519,059	-	-	(519,059)
Business	6,359	-	-	(6,359)
Operations and maintenance	1,738,157	1,307	-	(1,736,850)
Pupil transportation	1,155,194	-	42,290	(1,112,904)
Central	14,547	-	9,000	(5,547)
Operation of non-instructional services:				
Other non-instructional services	362	-	1,200	838
Food service operations	721,536	398,932	328,283	5,679
Extracurricular activities	962,979	189,436	40,475	(733,068)
Facilities acquisition and construction	507,959	-	-	(507,959)
Debt service:				
Principal retirement	622	-	-	(622)
Interest and fiscal charges	110	-	-	(110)
Total governmental activities	\$ 23,491,920	\$ 841,881	\$ 2,179,025	(20,471,014)
General receipts:				
Property taxes levied for:				
General purposes				11,061,026
Capital outlay				588,874
Grants and entitlements not restricted to specific programs				10,858,511
Investment earnings				28,210
Miscellaneous				72,405
Total general receipts				22,609,026
Change in net cash position				2,138,012
Net cash position at beginning of year				7,898,670
Net cash position at end of year				\$ 10,036,682

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments.	\$ 9,075,105	\$ 169,955	\$ 9,245,060
Total assets	<u>\$ 9,075,105</u>	<u>\$ 169,955</u>	<u>\$ 9,245,060</u>
Fund cash balances:			
Restricted:			
Debt service	\$ -	\$ 1,926	\$ 1,926
Capital improvements	-	117,721	117,721
Food service operations	-	2,554	2,554
Special education	-	14,416	14,416
Targeted academic assistance	-	6,969	6,969
Extracurricular	-	26,369	26,369
Assigned:			
Student instruction	31,772	-	31,772
Student and staff support.	161,294	-	161,294
Extracurricular activities	16,026	-	16,026
Facilities acquisition and construction	10,264	-	10,264
Other purposes.	90	-	90
Unassigned	<u>8,855,659</u>	<u>-</u>	<u>8,855,659</u>
Total fund cash balances	<u>\$ 9,075,105</u>	<u>\$ 169,955</u>	<u>\$ 9,245,060</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO
NET POSITION - CASH BASIS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances	\$ 9,245,060
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*Amounts reported for governmental activities on the
statement of net position - cash basis are different because:*

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position - cash basis.

791,622

Net position - cash basis of governmental activities	<u>\$ 10,036,682</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 11,061,026	\$ 588,874	\$ 11,649,900
Tuition	145,544	-	145,544
Earnings on investments	26,379	21	26,400
Charges for services	-	398,932	398,932
Extracurricular	35,855	183,994	219,849
Classroom materials and fees	70,854	-	70,854
Rental income	1,307	-	1,307
Contributions and donations	9,689	5,395	15,084
Other local revenues	90,742	43,605	134,347
Intergovernmental - state	11,704,750	115,144	11,819,894
Intergovernmental - federal	33,119	1,112,871	1,145,990
Total cash receipts	<u>23,179,265</u>	<u>2,448,836</u>	<u>25,628,101</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	10,189,813	155,472	10,345,285
Special	3,198,126	510,665	3,708,791
Other	54,373	-	54,373
Support services:			
Pupil	979,105	134,056	1,113,161
Instructional staff	826,632	164,565	991,197
Board of education	76,857	-	76,857
Administration	1,627,109	96,008	1,723,117
Fiscal	506,564	14,337	520,901
Business	6,359	-	6,359
Operations and maintenance	1,740,150	10,971	1,751,121
Pupil transportation	1,066,928	94,865	1,161,793
Central	5,547	9,000	14,547
Operation of non-instructional services:			
Other operation of non-instructional	362	-	362
Food service operations	-	728,368	728,368
Extracurricular activities	719,253	245,568	964,821
Facilities acquisition and construction	49,021	458,938	507,959
Debt service:			
Principal retirement	622	-	622
Interest and fiscal charges	110	-	110
Total cash disbursements	<u>21,046,931</u>	<u>2,622,813</u>	<u>23,669,744</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>2,132,334</u>	<u>(173,977)</u>	<u>1,958,357</u>
Other financing sources (uses):			
Transfers in	-	100,000	100,000
Transfers (out)	(100,000)	-	(100,000)
Advances in	2,900	100,000	102,900
Advances (out)	(100,000)	(2,900)	(102,900)
Total other financing sources (uses)	<u>(197,100)</u>	<u>197,100</u>	<u>-</u>
Net change in fund cash balances	1,935,234	23,123	1,958,357
Fund cash balances at beginning of year	<u>7,139,871</u>	<u>146,832</u>	<u>7,286,703</u>
Fund cash balances at end of year	<u>\$ 9,075,105</u>	<u>\$ 169,955</u>	<u>\$ 9,245,060</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - cash basis - total governmental funds	\$	1,958,357
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*Amounts reported for governmental activities in the
statement of activities are different because:*

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

179,655

Change in net cash position of governmental activities	\$	<u><u>2,138,012</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 11,271,066	\$ 11,115,253	\$ 11,061,026	\$ (54,227)
Tuition	179,156	176,679	145,545	(31,134)
Earnings on investments	8,792	8,670	26,379	17,709
Classroom materials and fees	81,170	80,048	70,854	(9,194)
Rental income	945	932	1,307	375
Other local revenues	50,768	50,066	72,404	22,338
Intergovernmental - state	11,636,555	11,475,691	11,704,749	229,058
Total budgetary basis receipts.	<u>23,228,452</u>	<u>22,907,339</u>	<u>23,082,264</u>	<u>174,925</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	11,096,670	10,553,972	10,185,968	368,004
Special.	3,252,069	3,398,331	3,235,727	162,604
Other.	52,531	56,072	54,373	1,699
Support services:				
Pupil.	1,041,865	1,084,584	986,013	98,571
Instructional staff	847,084	903,869	867,391	36,478
Board of education	136,864	149,738	93,670	56,068
Administration.	1,679,822	1,634,094	1,592,724	41,370
Fiscal	550,048	530,873	511,542	19,331
Business	6,804	6,901	6,359	542
Operations and maintenance.	1,923,119	1,960,360	1,785,582	174,778
Pupil transportation	1,288,605	1,239,815	1,092,862	146,953
Central.	4,212	7,597	5,547	2,050
Other operation of non-instructional services	1,267	1,301	452	849
Extracurricular activities.	785,395	796,211	737,412	58,799
Facilities acquisition and construction	16,519	62,303	59,285	3,018
Total budgetary basis disbursements	<u>22,682,874</u>	<u>22,386,021</u>	<u>21,214,907</u>	<u>1,171,114</u>
Excess of budgetary basis receipts over budgetary basis disbursements	<u>545,578</u>	<u>521,318</u>	<u>1,867,357</u>	<u>1,346,039</u>
Other financing sources (uses):				
Refund of prior year's expenditures	91,262	90,000	90,386	386
Transfers (out).	-	(100,000)	(100,000)	-
Advances in.	2,941	2,900	2,900	-
Advances (out)	<u>(3,170)</u>	<u>(200,023)</u>	<u>(100,000)</u>	<u>100,023</u>
Total other financing sources (uses)	<u>91,033</u>	<u>(207,123)</u>	<u>(106,714)</u>	<u>100,409</u>
Net change in fund cash balance	636,611	314,195	1,760,643	1,446,448
Fund cash balance at beginning of year . . .	6,976,339	6,976,339	6,976,339	-
Prior year encumbrances appropriated . . .	111,294	111,294	111,294	-
Fund cash balance at end of year	<u>\$ 7,724,244</u>	<u>\$ 7,401,828</u>	<u>\$ 8,848,276</u>	<u>\$ 1,446,448</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2016

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and investments	\$ 791,622
Total assets.	<u>791,622</u>
 Net cash position:	
Unrestricted.	<u>791,622</u>
Total net cash position.	<u>\$ 791,622</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN
NET POSITION - CASH BASIS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Sales/charges for services.	\$ 3,569,796
Total operating cash receipts	3,569,796
Operating cash disbursements:	
Purchased services.	510,426
Claims	2,881,546
Total operating cash disbursements	3,391,972
Operating income	177,824
Nonoperating cash receipts:	
Interest receipts	1,831
Total nonoperating cash receipts.	1,831
Change in net position	179,655
Net cash position at beginning of year. . .	611,967
Net cash position at end of year	\$ 791,622

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 34,086	\$ 67,029
Total assets.	\$ 34,086	\$ 67,029
 Net cash position:		
Held in trust for scholarships	\$ 34,086	\$ -
Held for student activities	-	67,029
Total net cash position.	\$ 34,086	\$ 67,029

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 70
Gifts and contributions.	18,480
Total additions.	18,550
 Change in net cash position.	 18,550
Net cash position at beginning of year. . .	15,536
Net cash position at end of year	\$ 34,086

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 5 instructional facilities. The District employs 110 non-certified and 148 certified employees to provide services to approximately 2,319 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL

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

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

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

B. Basis of Accounting

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student activity.

D. Basis of Presentation and Measurement Focus

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2016 is as follows:

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2016.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2016.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$26,379, which includes \$937 assigned from other District funds.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

During fiscal year 2016, investments were limited to negotiable certificates of deposit, U.S. government money market mutual funds, Federal Home Loan Bank (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities and Federal National Mortgage Association (FNMA) securities. All investments are reported at cost (carrying value). At June 30, 2016, the fair value of the District's investments was \$4,031,340 which is not materially different from the carrying value of \$4,007,710.

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. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

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

J. Fund Cash Balance

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

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

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

Assigned - amounts that are constrained by the District's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for intended purposes. The Board of Education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

L. Net Cash Position

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

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

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund activity between governmental funds are eliminated on the statement of net position - cash basis and the statement of activities - cash basis.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

N. Parochial Schools

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

O. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made for future general fund shortfall. At June 30, 2016, the balance in the budget stabilization reserve was \$87,929. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

P. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$6,129,987. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$846,927 of the District’s bank balance of \$6,196,041 was exposed to custodial risk as discussed below, while \$5,349,114 was covered by the FDIC.

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

C. Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Cost</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
U.S. Government money market	\$ 157,675	\$ 157,675	\$ -	\$ -	\$ -	\$ -
FHLB	124,988	-	-	-	124,988	-
FFCB	299,775	-	-	-	-	299,775
FHLMC	600,197	-	-	-	-	600,197
FNMA	250,075	-	-	-	-	250,075
Negotiable CD's	<u>2,575,000</u>	<u>100,000</u>	<u>400,000</u>	<u>650,000</u>	<u>550,000</u>	<u>875,000</u>
Total	<u>\$ 4,007,710</u>	<u>\$ 257,675</u>	<u>\$ 400,000</u>	<u>\$ 650,000</u>	<u>\$ 674,988</u>	<u>\$ 2,025,047</u>

Interest Rate Risk: The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Standard & Poor’s has also assigned the U.S. Government money market mutual fund an AAAM money market rating. Federal agency securities were rate AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. The negotiable certificates of deposit are fully insured by the FDIC. The District has no investment policy that would further limit its investment choices.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The 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, 2016:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
U.S. Government money market	\$ 157,675	3.93
FHLB	124,988	3.12
FFCB	299,775	7.48
FHLMC	600,197	14.98
FNMA	250,075	6.24
Negotiable CD's	<u>2,575,000</u>	<u>64.25</u>
Total	<u>\$ 4,007,710</u>	<u>100.00</u>

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

The following is a reconciliation of deposits and cash on hand as reported in the note above to cash as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,129,987
Investments	4,007,710
Cash on hand	<u>100</u>
Total	<u>\$ 10,137,797</u>

<u>Cash and investments per statement of net position</u>	
Governmental funds	\$ 10,036,682
Private-purpose trust fund	34,086
Agency fund	<u>67,029</u>
Total	<u>\$ 10,137,797</u>

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund advances for the year ended June 30, 2016, consisted of the following, as reported on the fund statements:

<u>Advances to nonmajor governmental funds from:</u>	
General fund	\$ 100,000
 <u>Advances to the general fund from:</u>	
Nonmajor governmental funds	<u>2,900</u>
 Total	 <u>\$ 102,900</u>

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

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

- B. Interfund transfers for the fiscal year ended June 30, 2016 consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 100,000</u>

Transfers are used to move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, and to use unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Richland and Morrow Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 331,490,820	97.23	\$ 330,629,400	96.82
Public utility personal	<u>9,433,560</u>	<u>2.77</u>	<u>10,875,840</u>	<u>3.18</u>
Total	<u>\$ 340,924,380</u>	<u>100.00</u>	<u>\$ 341,505,240</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$48.40		\$47.40	

NOTE 7 - LONG-TERM OBLIGATIONS

The table that follows summarizes the changes in the District's long-term obligations during fiscal year 2016.

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital Lease Obligation	\$ 2,321	\$ -	\$ (622)	\$ 1,699	\$ 654
Total governmental activities	<u>\$ 2,321</u>	<u>\$ -</u>	<u>\$ (622)</u>	<u>\$ 1,699</u>	<u>\$ 654</u>

Capital Lease Obligations - See Note 8 for details.

Legal Debt Margin: The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$30,737,398 and an unvoted debt margin of \$341,505.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 8 - CAPITAL LEASE - LESSEE DISCLOSURE

In the prior fiscal year, the District entered into a capital lease agreement for the acquisition of copier equipment. The lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Principal and interest payments in the 2016 fiscal year totaled \$622 and \$110, respectively. These amounts are reported as debt service payments of the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease agreement and the present value of the future minimum lease payments as of June 30, 2016:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2017	\$ 732
2018	732
2019	<u>366</u>
Total minimum lease payment	1,830
Less: amount representing interest	<u>(131)</u>
Present value of minimum lease payments	<u>\$ 1,699</u>

NOTE 9 - 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 250 days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by State Teachers Retirement System of Ohio and School Employees Retirement System.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through OneAmerica.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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

The District had the following coverages in effect for fiscal year 2016:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 6,000,000	\$ -
Aggregate	8,000,000	-
Fleet:		
Comprehensive	6,000,000	1,000 buses / 250 other
Collision	1,000,000	1,000 buses / 500 other
Building and contents	70,230,065	1,000

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

B. Health Benefits

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

A comparison of self-insurance fund cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2015</u>	<u>2016</u>
Cash and Investments	\$ 611,967	\$ 791,622
Actuarial Liabilities	\$ 279,800	\$ 272,870

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

C. Workers' Compensation

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(Continued)

NOTE 11 - PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$451,744 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$1,300,130 for fiscal year 2016.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportionate share of the net pension liability	\$5,974,643	\$23,448,157	\$29,422,800
Proportion of the net pension liability	0.1047063%	0.08484312%	

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
 Total	 <u><u>100.00 %</u></u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$8,284,683	\$5,974,643	\$4,029,399

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio’s investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$32,571,258	\$23,448,157	\$15,733,214

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$53,976, \$79,570, and \$56,136, respectively. 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$89,324, respectively; 100 percent has been contributed for fiscal year 2014.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 13 – CONTINGENCIES - (Continued)

C. School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 14 - STATUTORY RESERVES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	413,264
Current year qualifying expenditures	(282,328)
Current year offsets	<u>(689,483)</u>
Total	<u>\$ (558,547)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

Net Change in Fund Cash Balance

	<u>General fund</u>
Budget basis	\$ 1,760,643
Funds budgeted elsewhere **	674
Adjustment for encumbrances	<u>173,917</u>
Cash basis	<u>\$ 1,935,234</u>

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

NOTE 16 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 174,835
Other governmental	<u>7,979</u>
Total	<u>\$ 182,814</u>

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Passed Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
<i>Passed through the Ohio Department of Education</i>		
Child Nutrition Cluster:		
Cash Assistance		
School Breakfast Program	10.553	\$ 40,355
National School Lunch Program	10.555	278,567
Special Milk Program for Children	10.556	655
		319,577
Non-Cash Assistance		
National School Lunch Program	10.555	50,822
		370,399
Total Child Nutrition Cluster		
		370,399
Total U.S. Department of Agriculture		
		370,399
<u>U.S. DEPARTMENT OF EDUCATION</u>		
<i>Passed through the Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	256,312
Special Education Cluster:		
Special Education - Grants to States	84.027	478,218
Special Education - Preschool Grants	84.173	3,222
		481,440
Total Special Education Cluster		
		481,440
Improving Teacher Quality State Grants	84.367	41,776
		41,776
Total U.S. Department of Education		
		779,528
TOTAL EXPENDITURES OF FEDERAL AWARDS		
		\$ 1,149,927

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Lexington Local School District, Richland County, Ohio, (the District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Entity's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Lexington Local School District's, Richland County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, Lexington Local School District, Richland County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
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www.auditor.state.oh.us

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2016

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>Special Education Cluster:</u> CFDA #84.027 – Special Education – Grants to States CFDA \$84.173 – Special Education – Preschool Grants
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016
(Continued)

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

Finding Number

2016-001

**Material Noncompliance
GAAP Reporting**

Ohio Rev. Code §117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2016, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

We recommend the District prepare its financial statements on the GAAP basis of accounting.

Officials' Response:

Refer to Corrective Action Plan on page 61.

3. FINDINGS FOR FEDERAL AWARDS

None

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Lexington Local Board of Education recognizes the value in preparing accurate and timely financial statements to reflect the District's operations as of fiscal year end. Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash basis of accounting will accurately reflect the District's financial position and allow for those resources previously spent on GAAP to be allocated to educational purposes.	Not applicable – no corrective action planned.	Jason Whitesel, Treasurer

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001 2014-001	Material Noncompliance - Administrative Code § 117-2-03(B) – GAAP Reporting	Not Corrected	Finding is being repeated in the current audit as finding 2016-001. The District continues to report on the cash basis rather than GAAP.



Dave Yost • Auditor of State

LEXINGTON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 29, 2016