

NEW LEXINGTON CITY SCHOOL DISTRICT

PERRY COUNTY

SINGLE AUDIT

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
New Lexington City School District
320 First Street
New Lexington, Ohio 43764

We have reviewed the Independent Auditor's Report of the New Lexington City School District, Perry County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 21, 2004

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New Lexington City School District

June 30, 2004

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New Lexington City School District

June 30, 2004

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Board of Education
New Lexington City School District
320 First Street
New Lexington, Ohio 43764

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of New Lexington City School District, Perry County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
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1-800-523-6611
FAX (740) 345-5635

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wilson, Shannon & Snow, Inc.

Newark, Ohio
November 29, 2004

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The discussion and analysis of the New Lexington City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$13,668,608 in revenue or 83% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,782,793 or 17% of total revenues of \$16,451,401.
- Total program expenses were \$16,338,892.
- In total, net assets increased \$112,509 which represents a .35% increase from 2003.
- Outstanding bonded debt decreased from \$3,370,000 to \$3,265,000 through the payment of bond principal.

Using this Annual Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the New Lexington City School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the District's finances is, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

- Governmental Activities - The School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General fund and the Permanent Improvement fund.

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

Fiduciary Funds – The District's only fiduciary fund is for Student Managed Activities. The District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the District's other financial statements because the assets can't be used by the District to finance operations.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets:		
Current and other assets	\$ 9,486,950	\$ 8,198,859
Capital assets	31,415,673	32,349,048
Total assets	40,902,623	40,547,907
Liabilities:		
Long-term liabilities	4,349,104	4,472,085
Other liabilities	4,715,153	4,349,965
Total liabilities	9,064,257	8,822,050
Net Assets:		
Invested in capital assets, net of debt	\$ 28,048,015	\$ 28,490,622
Restricted	922,942	1,054,235
Unrestricted	2,867,409	2,181,000
Total net assets	\$ 31,838,366	\$ 31,725,857

Total assets increased by \$354,716. An increase of approximately \$855,917 in taxes receivable was the majority of the increase in governmental assets. Total liabilities increased by \$242,207 with governmental liabilities comprising that entire amount. This decrease was primarily the result of an increase in deferred revenue.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2 shows the changes in net assets for fiscal year 2004. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	Governmental Activities 2004	Governmental Activities 2003
<i>Revenues</i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 385,840	\$ 371,951
Operating Grants	2,396,953	2,242,737
<i>General Revenue:</i>		
Property Taxes	3,104,391	2,104,684
Grants and Entitlements	10,245,270	10,291,608
Other	318,947	375,684
<i>Total Revenues</i>	16,451,401	15,386,664
<i>Program Expenses</i>		
Instruction	8,865,490	8,520,101
Support Services	5,971,167	6,057,134
Operation of Non-Instructional	957,951	922,168
Extracurricular Activities	355,352	333,592
Interest and Fiscal Charges	188,932	199,660
<i>Total Expenses</i>	16,338,892	16,032,655
Increase (Decrease) in Net Assets	\$ 112,509	\$ (645,991)

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Governmental Activities

Information about the School District's major funds starts on page 13.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. General revenues, including tax revenue, investment earnings, and unrestricted state entitlements, support the net cost of program services.

(Table 3)
Governmental Activities

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 8,865,490	\$ 7,438,684	\$ 8,520,101	\$ 7,277,137
Support Services:				
Pupil and Instructional Staff	979,502	695,842	1,112,160	854,795
Board of Education, Administration Fiscal, and Business	1,689,495	1,600,484	1,766,967	1,583,326
Operation and Maintenance of Plant	1,538,067	1,521,961	1,675,468	1,674,078
Pupil Transportation	1,439,893	1,435,800	1,183,374	1,183,374
Central	324,210	(185,305)	319,165	319,165
Operation of Non-Instructional	957,951	570,737	922,168	101,514
Extracurricular Activities	355,352	288,964	333,592	224,918
Interest and Fiscal Charges	188,932	188,932	199,660	199,660
Total Expenses	\$ 16,338,892	\$ 13,556,099	\$ 16,032,655	\$ 13,417,967

Instruction and student support services comprise 60% of governmental program expenses. Interest/fiscal charges were 1%. Interest expense was attributable to the outstanding bonds, and lease payments. Pupil transportation and the operation/maintenance of facilities accounts for 18% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for New Lexington City School District.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$651,047, under the original budget estimates of \$13,328,237. Of this \$651,047 decrease, most was attributable to a decrease in tax revenue.

Final appropriations of \$12,950,945 were \$201,829 higher than the \$12,749,116 in the original budget. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated. The addition of the Windsor Educational Program also increased salary and benefit expenses during the year, although this expense was offset by tuition paid by the home district of each Windsor student. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$31,415,673 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared with 2003.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$ 218,360	\$ 218,360
Buildings and Building Improvements	27,991,520	28,772,440
Improvements Other Than Buildings	593,143	638,703
Furniture and Equipment	1,889,546	2,087,644
Vehicles	723,104	631,901
Totals	\$ 31,415,673	\$ 32,349,048

The \$933,375 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$ 279,253 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements. For the textbooks, the School District disbursed \$ 179,133, with the remainder scheduled to be carried forward into the 2005 fiscal year.

Debt

At June 30, 2004, the School District had \$3,265,000 in bonds outstanding with \$110,000 due within one year. During fiscal year 2003, \$105,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds	\$ 3,265,000	\$ 3,370,000

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

In 1998, the School District passed a bond issue providing \$3,560,000 for the construction of a new High School and the refurbishing of the former High School (now known as the Middle School) and the former Middle School (now known as the Elementary School). The Junction City Elementary School was also completely renovated and still remains an Elementary School.

Economic Factors

The New Lexington City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy, a 3 mill renewal, passed by the residents of the district was in February, 2004, with the promise that the revenue generated by a levy would provide sufficient funding for five years.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property tax revenue makes up only 16% of revenues for governmental activities for the New Lexington City School District in fiscal year 2004. Unlike many other school districts, the New Lexington City School District is not dependent upon revenues generated from property taxes.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The New Lexington City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2004. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dan Stanton, Treasurer of New Lexington City School District, 310 First Street, New Lexington, OH 43764 or dans@seovec.org.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,860,893
Receivables:	
Taxes	4,044,711
Accounts	15,795
Accrued Interest	1,466
Intergovernmental	529,730
Inventory Held For Resale	27,392
Materials and Supplies	6,963
Nondepreciable Capital Assets	218,360
Depreciable Capital Assets (Net)	<u>31,197,313</u>
 <i>Total Assets</i>	 <u>40,902,623</u>
 Liabilities	
Accounts Payable	34,303
Accrued Wages and Benefits	1,121,886
Matured Severance Payable	27,452
Intergovernmental Payable	469,089
Deferred Revenue	2,837,974
Claims Payable	224,449
Long Term Liabilities:	
Due Within One Year	220,583
Due Within More Than One Year	<u>4,128,521</u>
 <i>Total Liabilities</i>	 <u>9,064,257</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	28,048,015
Restricted for:	
Capital Projects	37,457
Debt Service	377,157
Other Purposes	508,328
Unrestricted	<u>2,867,409</u>
 <i>Total Net Assets</i>	 <u>\$ 31,838,366</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 6,327,236	\$ 19,385	\$ 663,837	\$ (5,644,014)
Special	1,909,924	5,600	601,708	(1,302,616)
Vocational	615,613	1,823	128,607	(485,183)
Other	12,717	5,846	-	(6,871)
Support services:				
Pupils	635,490	1,996	104,114	(529,380)
Instructional staff	344,012	772	176,778	(166,462)
Board of Education	92,296	293	-	(92,003)
Administration	1,199,482	4,126	79,279	(1,116,077)
Fiscal	333,284	1,181	4,094	(328,009)
Business	64,433	38	-	(64,395)
Operation and maintenance of plant	1,538,067	5,372	10,734	(1,521,961)
Pupil transportation	1,439,893	4,093	-	(1,435,800)
Central	324,210	902	508,613	185,305
Operation of non-instructional services	957,951	268,025	119,189	(570,737)
Extracurricular activities	355,352	66,388	-	(288,964)
Debt service:				
Interest and fiscal charges	188,932	-	-	(188,932)
Totals	<u>\$ 16,338,892</u>	<u>\$ 385,840</u>	<u>\$ 2,396,953</u>	<u>\$ (13,556,099)</u>

General Revenues

Property Taxes Levied for:

General Purposes	2,762,921
Debt Service	341,470
Grants and Entitlements not Restricted to Specific Programs	10,245,270
Investment Earnings	39,534
Miscellaneous	269,126
Gain on Sale of Capital Assets	10,287

Total General Revenues 13,668,608

Change in Net Assets 112,509

Net Assets Beginning of Year 31,725,857

Net Assets End of Year \$ 31,838,366

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,967,094	\$ 940,185	\$ 3,907,279
Cash and Cash Equivalents:			
Restricted Cash	508,328	-	508,328
Receivables:			
Taxes	3,518,899	525,812	4,044,711
Accounts	15,397	398	15,795
Interfund	112,863	-	112,863
Accrued Interest	1,466	-	1,466
Intergovernmental	-	529,730	529,730
Inventory Held For Resale	-	27,392	27,392
Materials and Supplies	-	6,963	6,963
<i>Total Assets</i>	7,124,047	2,030,480	9,154,527
Liabilities			
Accounts Payable	34,099	204	34,303
Accrued Wages and Benefits	932,588	189,298	1,121,886
Matured Severance Payable	12,807	14,645	27,452
Interfund Payable	-	112,863	112,863
Intergovernmental Payable	217,279	29,848	247,127
Deferred Revenue	3,481,798	921,667	4,403,465
<i>Total Liabilities</i>	4,678,571	1,268,525	5,947,096
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	561,928	53,040	614,968
Reserved for Inventory	-	34,355	34,355
Reserved for Property Taxes	37,101	5,544	42,645
Reserved to Textbook/Instructional Materials	322,328	-	322,328
Reserved for Budget	186,000	-	186,000
Unreserved:			
Undesignated, Unreserved Reported in:			
General Fund	1,338,119	-	1,338,119
Special Revenue Funds	-	388,343	388,343
Debt Service Fund	-	244,416	244,416
Capital Projects Funds	-	36,257	36,257
<i>Total Fund Balances</i>	2,445,476	761,955	3,207,431
<i>Total Liabilities and Fund Balances</i>	\$ 7,124,047	\$ 2,030,480	\$ 9,154,527

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances		\$ 3,207,431
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		31,415,673
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 401,399	
Delinquent Property Taxes	<u>1,164,092</u>	1,565,491
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		220,837
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(3,265,000)	
Matured Severance Payable	(981,446)	
Intergovernmental Payable	(221,962)	
Capital Leases	<u>(102,658)</u>	<u>(4,571,066)</u>
Net Assets of Governmental Activities		<u>\$ 31,838,366</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 2,272,487	\$ 348,306	\$ 2,620,793
Intergovernmental	10,245,174	2,327,727	12,572,901
Investment income	38,436	1,098	39,534
Tuition and fees	45,747	5,819	51,566
Extracurricular activities	-	65,505	65,505
Rentals	762	-	762
Charges for services	-	268,007	268,007
Miscellaneous	125,224	143,902	269,126
<i>Total Revenues</i>	<u>12,727,830</u>	<u>3,160,364</u>	<u>15,888,194</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,066,451	616,364	5,682,815
Special	1,531,306	404,227	1,935,533
Vocational	486,528	124,394	610,922
Other	6,888	5,829	12,717
Support services:			
Pupils	532,340	105,711	638,051
Instructional staff	255,217	137,645	392,862
Board of education	78,890	-	78,890
Administration	1,099,670	72,880	1,172,550
Fiscal	301,967	14,696	316,663
Business	10,589	53,844	64,433
Operation and maintenance of plant	1,405,094	61,468	1,466,562
Pupil transportation	1,084,036	-	1,084,036
Central	240,821	27,523	268,344
Operation of non-instructional services	5,262	935,460	940,722
Extracurricular activities	235,492	102,940	338,432
Capital outlay	-	196,568	196,568
Debt service:			
Principal retirement	31,572	105,000	136,572
Interest and fiscal charges	9,573	179,359	188,932
<i>Total Expenditures</i>	<u>12,381,696</u>	<u>3,143,908</u>	<u>15,525,604</u>
<i>Excess of Revenues Over Expenditures</i>	346,134	16,456	362,590
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets	19,087	-	19,087
Operating transfers in	-	45,195	45,195
Operating transfers out	(45,195)	-	(45,195)
<i>Total Financing Sources and (Uses)</i>	<u>(26,108)</u>	<u>45,195</u>	<u>19,087</u>
<i>Net Change in Fund Balance</i>	320,026	61,651	381,677
<i>Fund balance at beginning of year</i>	2,125,450	692,840	2,818,290
<i>Increase in reserve for inventory</i>	-	7,464	7,464
<i>Fund balance at end of year</i>	<u>\$ 2,445,476</u>	<u>\$ 761,955</u>	<u>\$ 3,207,431</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 381,677

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Fixed Asset Additions	\$ 416,049	
Current Year Depreciation	<u>(1,340,624)</u>	(924,575)

Net effect of transactions involving sale of capital assets are not reflected in the funds (8,800)

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

Grants	69,322	
Delinquent Property Taxes	<u>483,598</u>	552,920

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond Principal	105,000	
Capital Leases	<u>31,572</u>	136,572

Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(13,591)	
Pension Obligation	(90,992)	
Change in Inventory	<u>7,464</u>	(97,119)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

71,834

Change in Net Assets of Governmental Activities \$ 112,509

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 2,502,620	\$ 2,187,000	\$ 2,283,206	\$ 96,206
Intergovernmental	10,608,005	10,100,857	10,249,395	148,538
Investment Income	39,797	37,000	38,939	1,939
Tuition and Fees	47,367	39,100	42,722	3,622
Rentals	789	1,000	762	(238)
Miscellaneous	129,659	60,400	62,166	1,766
<i>Total Revenues</i>	<u>13,328,237</u>	<u>12,425,357</u>	<u>12,677,190</u>	<u>251,833</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,971,418	5,187,097	5,173,430	13,667
Special	1,354,369	1,535,660	1,535,382	278
Vocational	465,113	485,206	485,106	100
Adult/Continuing	935	-	-	-
Other	109,269	6,841	6,841	-
Support Services				
Pupils	537,114	550,027	550,027	-
Instructional Staff	287,184	273,224	268,658	4,566
Board of Education	77,513	78,889	78,889	-
Administration	1,230,617	1,175,561	1,175,463	98
Fiscal	301,446	307,696	307,697	(1)
Business	21,585	15,322	15,322	-
Operation and Maintenance of Plant	1,628,178	1,716,941	1,716,909	32
Pupil Transportation	1,305,227	1,135,139	1,135,140	(1)
Central	249,782	265,246	265,146	100
Operation of Non-Instructional Services:				
Food Service Operations	-	5,258	5,258	-
Extracurricular Activities:				
Academic Oriented Activities	174,098	181,573	181,573	-
Sport Oriented Activities	35,268	50,104	50,104	-
<i>Total Expenditures</i>	<u>12,749,116</u>	<u>12,969,784</u>	<u>12,950,945</u>	<u>18,839</u>
Excess of Revenues Over (Under) Expenditures	579,121	(544,427)	(273,755)	270,672
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	-	1,600	19,087	17,487
Refund of Prior Year Expenditures	-	60,000	68,262	8,262
Refund of Prior Year Receipts	-	(2,134)	(2,134)	-
Advances In	-	56,909	56,909	-
Advances Out	(106,984)	(112,863)	(112,863)	-
Operating Transfers In	-	-	286,200	286,200
Operating Transfers Out	(267,942)	(339,656)	(286,200)	53,456
<i>Total Other Financing Sources (Uses)</i>	<u>(374,926)</u>	<u>(336,144)</u>	<u>29,261</u>	<u>365,405</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	204,195	(880,571)	(244,494)	636,077
<i>Fund Balance at Beginning of Year</i>	2,545,212	2,545,212	2,545,212	-
Prior Year Encumbrances Appropriated	578,676	578,676	578,676	-
<i>Fund Balance at End of Year</i>	<u>\$ 3,328,083</u>	<u>\$ 2,243,317</u>	<u>\$ 2,879,394</u>	<u>\$ 636,077</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2004

	Governmental Activities Internal Service Fund
	<u> </u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 445,286
Liabilities	
Claims Payable	<u>224,449</u>
Net Assets	
Unrestricted	<u>220,837</u>
<i>Total Net Assets</i>	<u><u>\$ 220,837</u></u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	\$ 1,850,819
Operating Expenses:	
Materials and supplies	1,176
Claims Expense	1,775,889
Other	1,920
<i>Total Operating Expenses</i>	1,778,985
Operating Income	71,834
<i>Change in Net Assets</i>	71,834
<i>Net Assets Beginning of Year</i>	149,003
<i>Net Assets End of Year</i>	\$ 220,837

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

Governmental
Activities -
Internal
Service Fund

Cash Flows From Operating Activities:

Cash Received from Customers	\$ 1,850,819
Cash Paid for Goods and Services	(1,176)
Cash Paid for Claims	(1,745,838)
Other Cash Payments	(1,920)

Net Cash Provided By Operating Activities 101,885

Net Increase in Cash and Cash Equivalents 101,885

Cash and Cash Equivalents at Beginning of Year 343,401

Cash and Cash Equivalents at End of Year \$ 445,286

**Reconciliation of Operating Income to Net Cash
Provided By Operating Activities:**

Operating Income \$ 71,834

Adjustments:

Increase in Claims Payable 30,051

Total Adjustments 30,051

Net Cash Provided By Operating Activities \$ 101,885

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds

June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 58,203</u>
Liabilities	
Due to Students	<u>\$ 58,203</u>

See accompanying notes to the basic financial statements.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The New Lexington City School District (the “School District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The New Lexington City School District operates under a locally-elected five member board form of government and provides educational services as mandated by State statute and Federal agencies. The Board of Education controls the School District’s five instructional/support facilities staffed by 76 classified employees, 141 certified teaching personnel, and 15 administrators, who provide services to 1,985 students and other community members.

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

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

The School District participates in the Southeast Ohio Voluntary Educational Consortium, the Tri-County Joint Vocational School, Southeastern Ohio Special Education Regional Resource Center, and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers’ Compensation Group Rating Program, an insurance purchasing pool. These organizations are presented in Notes 18 and 19.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its government type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District’s accounting policies are shown below.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the 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. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District has one major fund which is described below:

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student activities.

Internal Service Fund – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program, which provides medical benefits to employees.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to repurchase agreements, STAROhio (the State Treasurer's Investment Pool), and certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$38,436, which includes \$11,372 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. The School District had no prepaid items as of fiscal year end June 30, 2004.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional materials. See Note 21 for additional information regarding set-asides.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District maintains a capitalization threshold of \$300. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Land Improvements	15-20 Years
Buildings and Improvements	20-40 Years
Furniture and Fixtures	5-20 Years
Vehicles	8 Years

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Interfund Balances

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

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

O. Operating Revenues and Expenses

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

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual 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 2004.

R. Estimates

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the object code within function level within the General Fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3 – FUND DEFICITS

Fund balances/net assets at June 30, 2004 including the following individual fund deficits:

	<u>Deficit</u>
Special Revenue Funds:	
Food Service	\$ 74,745
DPIA	80,134
EMIS	57
School Net Professional Development	<u>6</u>
	<u>\$ 154,942</u>

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- 3) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

<u>Net Change in Fund Balance</u>	
	General
GAAP Basis	\$ 320,026
Net adjustment for revenue accruals	17,622
Advance in	102,103
Advance out	(112,863)
Net adjustment for expenditure accruals	24,645
Adjustment for encumbrances	(596,027)
Budget Basis	\$ (244,494)

NOTE 5 - DEPOSITS AND INVESTMENTS

State statues classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits identified as not required for use within the current two 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.

Protection of the School 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.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAROhio).
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days from the purchase date in an amount not to exceed 25% 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 rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the School 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.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3.

Deposits - At fiscal year-end, the carrying amount of the School District's deposits was \$4,919,096, and the bank balance was \$5,159,339. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$3,995,358 was collateralized with securities held by the pledging financial institutions' trust department or agent in the School District's name.
2. \$963,981 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ <u>4,919,096</u>	\$ <u> </u> -

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2004 for real and public utility property taxes represent collections of calendar year 2003 taxes. Property tax payments received during calendar year 2004 for tangible personal property (other than public utility property) is for calendar year 2004 taxes.

2004 real property taxes are levied after April 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - PROPERTY TAXES (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 44% of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003 on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value.

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

	2003 Second-Half		2004 First-Half	
	Collections		Collections	
	Amount	Percent	Amount	Percent
Real Property	\$ 88,551,230	79%	\$ 89,888,330	80%
Public Utility Tangible				
Personal Property	6,678,980	6%	7,310,000	6%
Tangible Personal Property	16,450,009	15%	15,830,279	14%
 Total Assessed Value	\$ 111,680,219	100%	\$ 113,028,609	100%
 Tax rate per \$1,000 of assessed value	\$ 32.67		\$ 32.67	

The School District receives property taxes from Perry County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004 was \$37,101 in the General Fund, \$4,691 in the Bond Retirement Fund, and \$853 in the Maintenance Special Revenue Fund. These amounts are recognized as revenue.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, accounts (billings for user charged services, and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Special Revenue Funds:

IDEA, Part B	\$ 102,670
Title I	287,322
Title V	11,412
Title IIA	44,319
Title VI-B	28,126
Title II-D	8,002
Food Service	<u>47,879</u>
Total Intergovernmental Receivables	<u><u>\$ 529,730</u></u>

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New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 – CAPITAL ASSETS

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

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 218,360	\$ -	\$ -	\$ 218,360
<i>Total Nondepreciable Capital Assets</i>	218,360	-	-	218,360
<i>Depreciable Capital Assets:</i>				
Land Improvements	948,051	-	-	948,051
Building and improvements	34,000,469	51,614	-	34,052,083
Furniture and equipment	4,734,095	170,484	-	4,904,579
Vehicles	1,265,437	193,951	(122,006)	1,337,382
<i>Total capital assets, being depreciated</i>	40,948,052	416,049	(122,006)	41,242,095
Less accumulated depreciation:				
Land Improvements	(309,348)	(45,560)	-	(354,908)
Building and improvements	(5,228,029)	(832,534)	-	(6,060,563)
Furniture and equipment	(2,646,451)	(368,582)	-	(3,015,033)
Vehicles	(633,536)	(93,948)	113,206	(614,278)
Total accumulated depreciation	(8,817,364)	(1,340,624)	113,206	(10,044,782)
<i>Total capital assets being depreciated, net</i>	32,130,688	(924,575)	(8,800)	31,197,313
<i>Governmental activities capital assets, net</i>	<u>\$ 32,349,048</u>	<u>\$ (924,575)</u>	<u>\$ (8,800)</u>	<u>\$ 31,415,673</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 – CAPITAL ASSETS (Continued)

Instruction:		
Regular	\$	536,250
Special		26,812
Vocational Education		4,022
Support Services:		
Pupil		16,087
Instructional Staff		20,109
Board of Education		13,406
Administration		26,812
Fiscal		4,022
Operation and Maintenance of Plant		260,081
Pupil Transportation		348,562
Central		54,966
Operation of Non-Institutional Services		13,407
Extracurricular Activities		16,088
		16,088
Total Depreciation	\$	1,340,624

NOTE 9 – RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

<u>Property</u>	<u>Deductible</u>	<u>Limits of Coverage</u>
Real Property	\$ 500	\$ 33,154,030
General Liability:		
Per Occurrence	-	1,000,000
Annual Aggregate	-	3,000,000
Boiler and Machinery	500	11,000,000
Electronic Equipment	500	1,049,321
Vehicles:		
Bodily Injury:		
Per Person	-	1,000,000
Per Accident	-	1,000,000
Property Damage	-	1,000,000
Uninsured Motorist:		
Per Person	-	50,000
Per Accident	-	50,000

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 – RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

Medical/surgical, prescription drug, vision, and dental insurance are offered to employees through a self-insurance internal service fund. The fund is responsible for \$125,000 in claims per individual per year. After that, stop-loss covers up to a lifetime maximum of \$2,000,000 per covered. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The claims liability of \$224,449 reported in the internal service fund at June 30, 2004, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated.

The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Charges in the fund's claims liability amount for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2003	\$ <u>170,063</u>	\$ <u>1,564,669</u>	\$ <u>1,540,334</u>	\$ <u>194,398</u>
2004	\$ <u>194,398</u>	\$ <u>1,775,889</u>	\$ <u>1,745,838</u>	\$ <u>224,449</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For fiscal year ended June 30, 2004, plan members are required to contribute 9.3% of their annual covered salary and the School District is required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 6%. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$901,152, \$854,904 and \$565,750, respectively; 82.66% has been contributed for fiscal year 2004, and 100% for fiscal years 2003 and 2002. \$156,266, representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

New Lexington City School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$278,964, \$261,912 and \$112,381, respectively; 50% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$138,750, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equaled 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$65,037 for fiscal year 2004.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003 (the latest information available), the balance in the fund was \$2.8 billion. For the year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83% of covered payroll, a decrease from 8.45% for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$245,013.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 (the latest information possible), SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave accumulation is limited to 230 days for classified employees and 330 days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for certified employees and 60 days for classified employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Kanawha Insurance Company in the amount of \$30,000.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 13 - GENERAL LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2004 were as follows:

	<u>Outstanding 6/30/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 6/30/2004</u>	<u>Due in One Year</u>
Governmental Activities:					
General Obligation Bonds:					
Classroom Facilities					
Bonds - 3.45%, 5.375%	\$ 3,370,000	\$ -	\$ (105,000)	\$ 3,265,000	\$ 110,000
Compensated Absences	967,855	13,591	-	981,446	76,397
Capital Leases	134,230	-	(31,572)	102,658	34,186
	<u>\$ 4,472,085</u>	<u>\$ 13,591</u>	<u>\$ (136,572)</u>	<u>\$ 4,349,104</u>	<u>\$ 220,583</u>

Classroom Facilities General Obligation Bonds – On July 1, 1999, New Lexington City School District issued \$3,873,000 in voted general obligation bonds for the purpose of constructing, acquiring, reconstructing, and making additions to classroom facilities. The bonds were issued for a 23 year period with final maturity at December 1, 2021. The bonds will be retired from the Debt Service Fund.

Fiscal Year Ending June 30,	General Obligation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 110,000	\$ 174,681	\$ 284,681
2006	115,000	169,674	284,674
2007	120,000	164,326	284,326
2008	130,000	158,511	288,511
2009	135,000	152,250	287,250
2010-2014	810,000	611,309	1,421,309
2015-2019	1,060,000	359,588	1,419,588
2020-2023	785,000	64,634	849,634
Total	<u>\$ 3,265,000</u>	<u>\$ 1,854,973</u>	<u>\$ 5,119,973</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – CAPITALIZED LEASES

Capital lease obligations relate to copier equipment which is leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13, "Accounting for Leases." Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Ending June 30,	Amount
2005	\$ 41,144
2006	41,144
2007	32,582
Total minimum lease payments	114,870
Less: Amount representing interest	12,212
 Present value of minimum lease payments	 \$ 102,658

NOTE 15 – DEFERRED REVENUE

Deferred revenue of Governmental Activities at June 30, 2004 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property tax receivable	\$ 2,837,974	\$ 4,002,066
Grants receivable	-	401,399
 Total deferred revenue	 \$ 2,837,974	 \$ 4,403,465

NOTE 16 – INTERFUND TRANSFERS

General fund transfers made during fiscal year 2004 were \$45,195 to the food service fund. These transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 17 – INTERFUND BALANCES

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2004 of \$112,863. The food service fund had an interfund payable of the same amount. The loan was due to the timing of collections on receivables.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

A. Southeast Ohio Voluntary Educational Consortium (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium 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. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$44,036 for services provided during the year. To obtain financial information, write to the Southeast Ohio Voluntary Education Consortium, Bobbie Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45710.

B. Tri-County Joint Vocational School District

Tri-County Joint Vocational School District is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven appointed representatives from the eight participating school districts. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Tri-County Joint Vocational School, Laura F. Carney, CPA, Treasurer, at 15676 State Route 691, Nelsonville, Ohio 45764.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid the Coalition of Rural and Appalachian Schools \$300 for services provided during the year.

D. Southeastern Ohio Special Education Regional Resource Council

The Southeastern Ohio Special Education Regional Resource Council provides special education services at a regional level and assists school districts in complying with mandates for educating children with disabilities. The New Lexington City School District has a cooperative agency agreement with the Council. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 – INSURANCE PURCHASING POOLING

Ohio School Boards Association Workers’ Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP’s business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20– CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

As of June 30, 2004, the School District was not a party to legal proceedings.

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New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 – STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	Budget Stabilization Reserve	Textbook Reserve	Capital Maintenance Reserve
Set-aside balance as of June 30, 2003	\$ -	\$ 222,208	\$ -
Current year set-aside requirement	-	279,253	279,253
Qualifying disbursements	-	(179,133)	(131,535)
Current year set-aside requirement	-	100,120	147,718
Beginning carryover offsets	-	-	1,059,462
Current year offsets	-	-	(50,434)
Total available offsets	-	-	1,009,028
Current year application of offsets	-	-	(147,718)
Offsets to be carried forward	-	-	<u>\$ 861,310</u>
Board approved budget reserve account	<u>186,000</u>	-	
Set-aside reserve balance as of June 30, 2004	<u>\$ 186,000</u>	<u>\$ 322,328</u>	

The School District had qualifying disbursements during the previous and current fiscal year that reduced the capital acquisition set-aside amount below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years.

NOTE 22 – STATE SCHOOL FUNDING DECISION

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

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

New Lexington City School District

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

For the Fiscal Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. Department of Agriculture</u>						
Passed through Ohio Department of Education						
Nutrition Cluster:						
National School Breakfast Program	05-PU-03	10.553	\$ 19,770	\$ -	\$ 19,770	\$ -
	05-PU-04		57,690		57,690	
National School Lunch Program	LL-P4-03	10.555	89,116	-	89,116	-
	LL-P4-04		220,556		220,556	
Summer Food Program	23&24-PU-03	10.559	23,719	-	23,719	-
Food Distribution	-	10.550	-	84,241	-	84,241
Total U.S. Department of Agriculture - Nutrition Cluster			<u>410,851</u>	<u>84,241</u>	<u>410,851</u>	<u>84,241</u>
<u>U.S. Department of Education</u>						
Passed through Ohio Department of Education						
Special Education Grants to States (IDEA Part B)	6B-SF-04	84.027	222,651	-	288,355	-
	6B-SF-03					
Improving Teacher Quality	TR-S1-03,04	84.367	135,734	-	95,772	-
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04	84.010	484,435	-	429,087	-
	C1-S1-03					
	C1-SD-04					
Education Technology State Grant	TJ-S1-03,04	84.318	9,172	-	6,009	-
Innovative Educational Program Strategies (Title VI)	C2-S1-03,04	84.298	3,548	-	5,114	-
Drug Free Schools	DR-S1-04	84.186	14,599	-	14,599	-
Rural and Low Income	RU-S1-03,04	84.358	24,938	-	26,502	-
Total U.S. Department of Education			895,077	-	865,438	-
<u>U.S. Department of Health and Human Services</u>						
Passed through Ohio Department of Mental Retardation and Mental Disabilities						
Medical Assistance Program (CAFS)		93.778	31,507	-	31,507	-
Total U.S. Department of Health and Human Services			<u>31,507</u>	<u>-</u>	<u>31,507</u>	<u>-</u>
Totals			<u>\$ 1,337,435</u>	<u>\$ 84,241</u>	<u>\$ 1,307,796</u>	<u>\$ 84,241</u>

The accompanying notes are an integral part of this schedule.

New Lexington City School District

NOTES TO THE SCHEDULE OF FEDERAL AWARDS AND EXPENDITURES

June 30, 2004

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

FOOD DISTRIBUTION

Non-monetary assistance is reported in the accompanying schedule of federal awards receipts and expenditures at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.



Report On Compliance And On Internal Control Required by Government Auditing Standards

Board of Education
New Lexington City School District
320 First Street
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, the major fund, and the remaining fund information of New Lexington City School District, Perry County, Ohio (the District) as of and for the year ended June 30, 2004 and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 29, 2004

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Ten West Locust Street

Newark, Ohio 43055

(740) 345-6611

1-800-523-6611

FAX (740) 345-5635

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we have reported to management in a separate letter dated November 29, 2004.

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
November 29, 2004



**Report On Compliance With Requirements Applicable To Each Major Program And On
Internal Control Over Compliance In Accordance With OMB Circular A-133**

Board of Education
New Lexington City School District
320 First Street
New Lexington, Ohio 43764

Compliance

We have audited the compliance of New Lexington City School District, Perry County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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FAX (740) 345-5635

Internal Control Over Compliance

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

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

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

Wilson, Shannon E. Shaw, Inc.

Newark, Ohio
November 29, 2004

**New Lexington City School District
Perry County**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1 / 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None were noted

3. FINDINGS FOR FEDERAL AWARDS

None were noted



**Auditor of State
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY 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 30, 2004**