

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

JUDY STAHL, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lexington Local School District, Richland County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 31, 2007

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LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County (the "District"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lexington Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report
Lexington Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 14, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

This discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$550,927 which represents a 7.38% decrease from 2005.
- General revenues accounted for \$19,456,025 in revenue or 90.45% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,053,327 or 9.55% of total revenues of \$21,509,352.
- The District had \$22,060,279 in expenses related to governmental activities; only \$2,053,327 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,456,025 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$18,947,752 in revenues and \$19,750,923 in expenditures. During fiscal 2006, the general fund's fund balance decreased \$798,402 from \$2,381,559 to \$1,583,157.

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-48 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 14,746,843	\$ 13,761,978
Capital assets	<u>5,848,854</u>	<u>6,253,913</u>
Total assets	<u>20,595,697</u>	<u>20,015,891</u>
<u>Liabilities</u>		
Current liabilities	11,759,370	10,476,135
Long-term liabilities	<u>1,924,001</u>	<u>2,076,503</u>
Total liabilities	<u>13,683,371</u>	<u>12,552,638</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,718,854	6,003,913
Restricted	212,286	210,422
Unrestricted	<u>981,186</u>	<u>1,248,918</u>
Total net assets	<u>\$ 6,912,326</u>	<u>\$ 7,463,253</u>

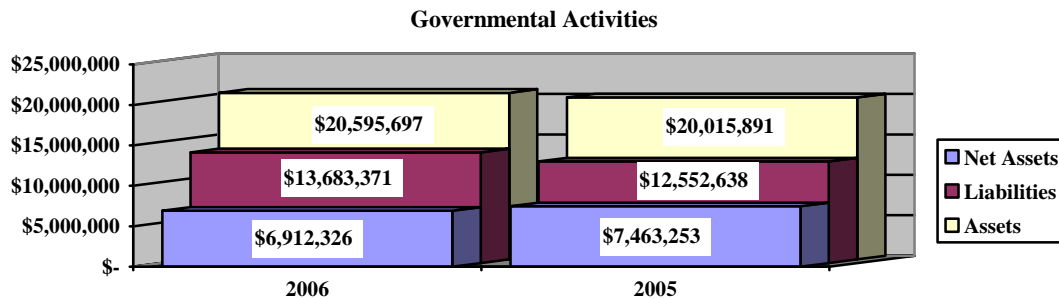
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$6,912,326. At year-end, unrestricted net assets were \$981,186.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

At year-end, capital assets represented 28.40% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006 were \$5,718,854. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$212,286, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$981,186 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,153,041	\$ 1,095,554
Operating grants and contributions	900,286	953,336
Capital grants and contributions	-	27,615
General revenues:		
Property taxes	8,665,495	9,584,524
Grants and entitlements	10,577,506	10,190,230
Investment earnings	158,724	90,720
Other	54,300	97,700
Total revenues	\$ 21,509,352	\$ 22,039,679

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,498,549	\$ 9,972,887
Special	1,804,331	1,819,984
Other	682,756	550,191
Support services:		
Pupil	578,551	606,844
Instructional staff	1,498,283	1,639,202
Board of education	17,213	23,445
Administration	1,944,631	1,830,180
Fiscal	449,214	441,791
Business	11,742	11,778
Operations and maintenance	1,991,085	2,038,120
Pupil transportation	1,167,938	1,155,771
Central	293,043	81,272
Operations of non-instructional services	26,917	40,924
Extracurricular activities	1,196,185	1,408,452
Food service operations	890,448	861,543
Interest and fiscal charges	<u>9,393</u>	<u>20,977</u>
Total expenses	<u>22,060,279</u>	<u>22,503,361</u>
Change in net assets	(550,927)	(463,682)
Net assets at beginning of year	<u>7,463,253</u>	<u>7,926,935</u>
Net assets at end of year	<u>\$ 6,912,326</u>	<u>\$ 7,463,253</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$550,927. Total governmental expenses of \$22,060,279 were offset by program revenues of \$2,053,327 and general revenues of \$19,456,025. Program revenues supported 9.31% of the total governmental expenses.

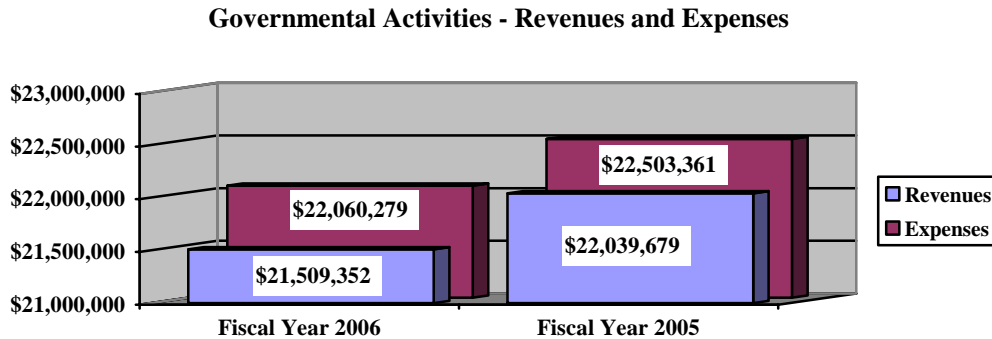
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 89.46% of total governmental revenue. Real estate property is reappraised every six years.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,985,636 or 54.33% of total governmental expenses for fiscal 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

	Governmental Activities			
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 9,498,549	\$ 9,277,868	\$ 9,972,887	\$ 9,623,186
Special	1,804,331	1,504,575	1,819,984	1,480,800
Other	682,756	682,756	550,191	550,191
Support services:				
Pupil	578,551	400,425	606,844	451,418
Instructional staff	1,498,283	1,413,181	1,639,202	1,606,495
Board of education	17,213	17,213	23,445	23,445
Administration	1,944,631	1,857,558	1,830,180	1,771,547
Fiscal	449,214	449,214	441,791	441,691
Business	11,742	11,742	11,778	11,778
Operations and maintenance	1,991,085	1,991,085	2,038,120	2,038,120
Pupil transportation	1,167,938	1,167,938	1,155,771	1,155,641
Central	293,043	267,908	81,272	55,857
Operations of non-instructional services	26,917	26,917	40,924	40,924
Extracurricular activities	1,196,185	935,576	1,408,452	1,182,708
Food service operations	890,448	(6,397)	861,543	(27,922)
Interest and fiscal charges	9,393	9,393	20,977	20,977
Total expenses	<u>\$ 22,060,279</u>	<u>\$ 20,006,952</u>	<u>\$ 22,503,361</u>	<u>\$ 20,426,856</u>

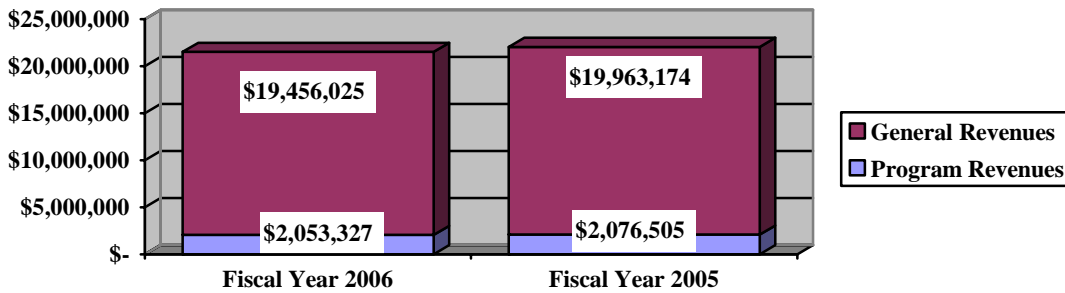
**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The dependence upon tax and other general revenues for governmental activities is apparent, 95.66% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.69%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,666,809, which is lower than last year's total of \$2,438,724. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 1,583,157	\$ 2,381,559	\$ (798,402)
Other Governmental	<u>83,652</u>	<u>57,165</u>	<u>26,487</u>
Total	<u>\$ 1,666,809</u>	<u>\$ 2,438,724</u>	<u>\$ (771,915)</u>

General Fund

The District's general fund balance decreased \$798,402. The decrease in fund balance can be attributed to a decrease in tax revenue, and an increase in various expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,072,977	\$ 9,010,002	(10.40) %
Tuition	87,218	83,541	4.40 %
Earnings on investments	156,347	89,171	75.33 %
Classroom materials and fees	73,839	82,892	(10.92) %
Intergovernmental	10,511,939	10,122,515	3.85 %
Other local revenues	<u>45,432</u>	<u>58,784</u>	(22.71) %
 Total	 <u>\$ 18,947,752</u>	 <u>\$ 19,446,905</u>	 (2.57) %
<u>Expenditures</u>			
Instruction	\$ 11,595,331	\$ 11,238,929	3.17 %
Support services	7,264,430	7,374,883	(1.50) %
Operation of non-instructional services	23,929	40,074	(40.29) %
Extracurricular activities	835,863	785,693	6.39 %
Debt service	<u>31,370</u>	<u>195,245</u>	(83.93) %
 Total	 <u>\$ 19,750,923</u>	 <u>\$ 19,634,824</u>	 0.59 %

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District did not amend its general fund budget therefore the original budget and final budget are the same. For the general fund, original and final budgeted revenues and other financing sources were \$19,000,000. Actual revenues and other financing sources for fiscal 2006 was \$19,940,811. This represents a \$940,811 increase over budgeted revenues.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$22,367,534. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$19,810,427, which was \$2,557,107 less than the budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$5,848,854 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 377,338	\$ 377,338
Land improvements	1,006,056	1,087,106
Building and improvements	3,471,404	3,779,580
Furniture and equipment	350,570	386,842
Vehicles	<u>643,486</u>	<u>623,047</u>
Total	<u>\$ 5,848,854</u>	<u>\$ 6,253,913</u>

Total additions to capital assets for 2006 were \$260,078. The overall decrease in capital assets of \$405,059 is primarily due to depreciation expense of \$665,137 exceeding additions for fiscal 2006. See Note 8 for further details on capital assets.

Debt Administration

At June 30, 2006, the District had \$130,000 in energy conservation notes outstanding. Of this total, \$130,000 is due within one year. The following table summarizes the notes outstanding.

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
Energy conservation notes	\$ 130,000	\$ 250,000
General obligation notes	<u>-</u>	<u>12,903</u>
Total	<u>\$ 130,000</u>	<u>\$ 262,903</u>

The general obligation notes were received in 2000. These notes are scheduled to mature in fiscal year 2006 and bear an interest rate of 6.00%. Payment of principal and interest on the general obligation notes are being made from the Permanent Improvement capital projects fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

At June 30, 2006, the District's overall legal debt margin was \$31,860,931 with an unvoted debt margin of \$354,010. The District maintains an A-1 bond rating.

See Note 9 for further details on the District's long-term debt.

Current Financial Related Activities

The District is strong financially and has enjoyed great fiscal support from our community. We are fortunate to have a Permanent Improvement Levy which gives us the ability to keep our facilities, vehicles, technology and instructional materials up to date for the best service to our students.

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

Our enrollment has remained fairly steady, with only slight decreases over the years. We have a small but steady stream of revenue from local businesses which are very supportive of our schools. Lexington is primarily a residential community and our schools are widely considered to be among the premier schools in Richland County, routinely earning either excellent or effective status on our State Report Card. Our cost per pupil is near the bottom of the list for area schools and we take great pride in the students who graduate from our school.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,614,122
Cash in segregated accounts.	28,939
Receivables:	
Taxes	9,899,220
Accounts	848
Intergovernmental	132,271
Materials and supplies inventory	71,443
Capital assets:	
Land	377,338
Depreciable capital assets, net	5,471,516
Total capital assets	5,848,854
 Total assets.	 20,595,697
 Liabilities:	
Accounts payable.	77,589
Accrued wages and benefits	2,232,774
Pension obligation payable.	502,575
Intergovernmental payable	93,477
Deferred revenue	8,746,385
Accrued interest payable	2,287
Matured bonds payable.	28,939
Claims payable	75,344
Long-term liabilities:	
Due within one year.	276,419
Due in more than one year	1,647,582
 Total liabilities	 13,683,371
 Net Assets:	
Invested in capital assets, net of related debt.	5,718,854
Restricted for:	
BWC refunds	81,351
Capital projects	33,193
Locally funded programs	2,950
State funded programs	21,162
Federally funded programs	53,565
Student activities.	9,478
Other purposes.	10,587
Unrestricted	981,186
 Total net assets	 \$ 6,912,326

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,498,549	\$ 161,057	\$ 59,624	\$ (9,277,868)
Special	1,804,331	-	299,756	(1,504,575)
Other	682,756	-	-	(682,756)
Support services:				
Pupil	578,551	-	178,126	(400,425)
Instructional staff	1,498,283	-	85,102	(1,413,181)
Board of education.	17,213	-	-	(17,213)
Administration.	1,944,631	80,345	6,728	(1,857,558)
Fiscal	449,214	-	-	(449,214)
Business.	11,742	-	-	(11,742)
Operations and maintenance	1,991,085	-	-	(1,991,085)
Pupil transportation	1,167,938	-	-	(1,167,938)
Central	293,043	-	25,135	(267,908)
Operation of non-instructional services	26,917	-	-	(26,917)
Extracurricular activities	1,196,185	260,609	-	(935,576)
Food service operations	890,448	651,030	245,815	6,397
Interest and fiscal charges	9,393	-	-	(9,393)
Totals	\$ 22,060,279	\$ 1,153,041	\$ 900,286	(20,006,952)

General Revenues:

Property taxes levied for:	
General purposes	8,119,929
Capital projects	545,566
Grants and entitlements not restricted	
to specific programs	10,577,506
Investment earnings	158,724
Miscellaneous	54,300
Total general revenues.	19,456,025
Change in net assets	(550,927)
Net assets at beginning of year.	7,463,253
Net assets at end of year	\$ 6,912,326

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,603,345	\$ 148,044	\$ 3,751,389
Cash in segregated accounts	-	28,939	28,939
Receivables:			
Taxes.	9,281,875	617,345	9,899,220
Accounts	848	-	848
Intergovernmental	3,066	129,205	132,271
Interfund loan.	39,500	-	39,500
Materials and supplies inventory.	49,294	22,149	71,443
Restricted assets:			
Equity in pooled cash and cash equivalents.	91,938	-	91,938
Total assets	\$ 13,069,866	\$ 945,682	\$ 14,015,548
Liabilities:			
Accounts payable.	\$ 6,497	\$ 71,092	\$ 77,589
Accrued wages and benefits	2,140,423	92,351	2,232,774
Compensated absences payable.	88,059	-	88,059
Pension obligation payable	460,631	41,944	502,575
Intergovernmental payable	89,401	4,076	93,477
Interfund loan payable	-	39,500	39,500
Matured bonds payable.	-	28,939	28,939
Deferred revenue	8,701,698	584,128	9,285,826
Total liabilities	11,486,709	862,030	12,348,739
Fund Balances:			
Reserved for encumbrances.	19,497	83,706	103,203
Reserved for materials and supplies inventory	49,294	22,149	71,443
Reserved for property tax unavailable for appropriation.	467,096	30,898	497,994
Reserved for BWC refunds	81,351	-	81,351
Reserved for school bus purchases	10,587	-	10,587
Unreserved, undesignated (deficit), reported in:			
General fund.	955,332	-	955,332
Special revenue funds	-	(22,262)	(22,262)
Capital projects funds	-	(30,839)	(30,839)
Total fund balances.	1,583,157	83,652	1,666,809
Total liabilities and fund balances	\$ 13,069,866	\$ 945,682	\$ 14,015,548

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 1,666,809
<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.		5,848,854
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 533,412	
Intergovernmental revenue	6,029	
Total		539,441
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.		695,451
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Energy conservation notes	(130,000)	
Compensated absences	(1,705,942)	
Accrued interest payable	(2,287)	
Total		(1,838,229)
Net assets of governmental activities		\$ 6,912,326

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 8,072,977	\$ 543,290	\$ 8,616,267
Tuition.	87,218	-	87,218
Charges for services.	-	651,030	651,030
Earnings on investments.	156,347	994	157,341
Extracurricular.	-	326,031	326,031
Classroom materials and fees	73,839	53,465	127,304
Other local revenues	45,432	-	45,432
Intergovernmental - State	10,511,939	122,581	10,634,520
Intergovernmental - Federal.	-	849,833	849,833
Total revenue	<u>18,947,752</u>	<u>2,547,224</u>	<u>21,494,976</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,381,502	83,209	9,464,711
Special.	1,531,073	308,928	1,840,001
Other	682,756	-	682,756
Support Services:			
Pupil.	418,551	165,161	583,712
Instructional staff	1,455,768	103,726	1,559,494
Board of education	17,213	-	17,213
Administration.	1,808,937	96,343	1,905,280
Fiscal	447,517	-	447,517
Business	11,742	-	11,742
Operations and maintenance.	1,718,424	245,200	1,963,624
Pupil transportation	1,179,653	-	1,179,653
Central.	206,625	85,323	291,948
Food service operations	-	891,809	891,809
Operation of non-instructional services	23,929	2,988	26,917
Extracurricular activities.	835,863	289,158	1,125,021
Facilities acquisition and construction	-	135,580	135,580
Debt service:			
Principal retirement	20,000	112,903	132,903
Interest and fiscal charges	11,370	273	11,643
Total expenditures	<u>19,750,923</u>	<u>2,520,601</u>	<u>22,271,524</u>
Net change in fund balances	(803,171)	26,623	(776,548)
Fund balances at beginning of year	2,381,559	57,165	2,438,724
Increase (decrease) in reserve for inventory.	4,769	(136)	4,633
Fund balances at end of year.	<u>\$ 1,583,157</u>	<u>\$ 83,652</u>	<u>\$ 1,666,809</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (776,548)

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

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

Capital asset additions	\$	260,078	
Current year depreciation		(665,137)	
Total			(405,059)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed. 4,633

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

Taxes		49,228	
Intergovernmental		(36,235)	
Total			12,993

Repayment of note principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets. 132,903

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. 2,250

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 52,378

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities. 425,523

Change in net assets of governmental activities \$ (550,927)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 8,552,670	\$ 8,552,670	\$ 8,849,946	\$ 297,276
Tuition.	92,000	92,000	83,304	(8,696)
Earnings on investments.	112,054	112,054	156,347	44,293
Classroom materials and fees	90,000	90,000	73,839	(16,161)
Other local revenues.	61,200	61,200	41,944	(19,256)
Intergovernmental - State	10,092,076	10,092,076	10,511,940	419,864
Total revenues.	<u>19,000,000</u>	<u>19,000,000</u>	<u>19,717,320</u>	<u>717,320</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,549,994	10,549,994	9,343,896	1,206,098
Special.	1,708,240	1,708,240	1,512,950	195,290
Other	770,988	770,988	682,847	88,141
Support Services:				
Pupil.	461,400	461,400	408,652	52,748
Instructional staff	1,745,233	1,745,233	1,545,714	199,519
Board of education	18,449	18,449	16,340	2,109
Administration.	2,036,829	2,036,829	1,803,974	232,855
Fiscal	502,632	502,632	445,170	57,462
Business	13,258	13,258	11,742	1,516
Operations and maintenance.	1,922,379	1,922,379	1,702,608	219,771
Pupil transportation	1,350,518	1,350,518	1,196,124	154,394
Central.	233,560	233,560	206,859	26,701
Operation of non-instructional services	28,847	28,847	25,549	3,298
Extracurricular activities.	945,188	945,188	837,132	108,056
Debt Service:				
Principal retirement	22,582	22,582	20,000	2,582
Interest and fiscal charges.	12,838	12,838	11,370	1,468
Total expenditures	<u>22,322,935</u>	<u>22,322,935</u>	<u>19,770,927</u>	<u>2,552,008</u>
Excess of revenues over (under) expenditures.	<u>(3,322,935)</u>	<u>(3,322,935)</u>	<u>(53,607)</u>	<u>3,269,328</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	13,469	13,469
Advances (out)	(44,599)	(44,599)	(39,500)	5,099
Advances in.	-	-	204,367	204,367
Sale of capital assets.	-	-	5,655	5,655
Total other financing sources (uses)	<u>(44,599)</u>	<u>(44,599)</u>	<u>183,991</u>	<u>228,590</u>
Net change in fund balance	(3,367,534)	(3,367,534)	130,384	3,497,918
Fund balance at beginning of year.	3,475,995	3,475,995	3,475,995	-
Prior year encumbrances appropriated	67,534	67,534	67,534	-
Fund balance at end of year	<u>\$ 175,995</u>	<u>\$ 175,995</u>	<u>\$ 3,673,913</u>	<u>\$ 3,497,918</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 770,795
Total assets	770,795
Liabilities:	
Claims payable	75,344
Total liabilities	75,344
Net assets:	
Unrestricted	695,451
Total net assets	\$ 695,451

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 2,581,111
Total operating revenues	<u>2,581,111</u>
Operating expenses:	
Purchased services.	430,773
Claims expense	<u>1,726,198</u>
Total operating expenses.	<u>2,156,971</u>
Operating income	<u>424,140</u>
Nonoperating revenues:	
Interest revenue	<u>1,383</u>
Total nonoperating revenues.	<u>1,383</u>
Change in net assets	425,523
Net assets at beginning of year.	<u>269,928</u>
Net assets at end of year.	<u><u>\$ 695,451</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/charges for services	\$	2,581,826
Cash payments for contractual services		(430,773)
Cash payments for claims expenses		(1,857,777)
		293,276
 Net cash provided by operating activities		 293,276
 Cash flows from investing activities:		
Interest received		1,383
		1,383
 Net cash provided by investing activities		 1,383
 Net increase in cash and cash equivalents.		294,659
 Cash and cash equivalents at beginning of year.		476,136
Cash and cash equivalents at end of year	\$	770,795
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	424,140
Changes in assets and liabilities:		
Decrease in accounts receivable.		715
Decrease in claims payable		(131,579)
		(131,579)
 Net cash provided by operating activities	\$	293,276

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 39,514
Total assets	\$ 39,514
Liabilities:	
Accounts payable.	\$ 57
Due to students	39,457
Total liabilities	\$ 39,514

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 179th largest by total enrollment among the 615 public school districts in the state. It currently operates 5 instructional facilities. The District employs 129 non-certified and 186 certified employees to provide services to approximately 2,859 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below:

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise has access to the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (Heartland)

Heartland is a joint venture among 21 school districts and 3 county boards of education. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports Heartland based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ration proportionate to their last 12 months of financial contribution. Heartland is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 39, the District does not have any equity interest in Heartland because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Jerry Payne, Treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

JOINTLY GOVERNED ORGANIZATION

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL

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

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

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

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

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

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

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

The Agency fund does not report a measurement focus as it does not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

D. Basis of Accounting

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$156,347, which includes \$29,790 assigned from other District funds.

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

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

G. Inventory

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

N. Net Assets

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

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation refunds and school bus purchases. See Note 16 for details.

Q. Interfund Activity

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

R. Parochial Schools

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 13,217
Ohio Reads	26
Title I	138
Title VI	2,827
Drug-Free Schools	351
Title VI-R	10,363
Miscellaneous Federal Grants	254

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end, the District had \$7,365 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash in Segregated Account

At fiscal year-end, \$28,939 was on deposit in the District's debt service clearance account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet and statement of net assets as "Equity in Pooled Cash and Cash Equivalents".

C. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$4,630,385. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$4,576,074 of the District's bank balance of \$4,776,074 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

D. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	<u>\$ 44,825</u>	<u>\$ 44,825</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 44,825</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and investments per footnote</u>		
Carrying amount of deposits	\$	4,630,385
Investments		44,825
Cash on hand		<u>7,365</u>
Total	\$	<u>4,682,575</u>
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$	4,643,061
Agency funds		<u>39,514</u>
Total	\$	<u>4,682,575</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor capital projects	<u>\$ 39,500</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Richland County and Morrow County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim.

Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$467,096 in the general fund, and \$30,898 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$1,204,275 in the general fund, and \$81,976 in the Permanent Improvement capital projects fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	<u>2005 Second</u>		<u>2006 First</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 293,719,380	92.35	\$ 329,983,880	93.21
Public utility personal	7,799,240	2.45	7,690,570	2.17
Tangible personal property	<u>16,538,589</u>	<u>5.20</u>	<u>16,335,892</u>	<u>4.62</u>
Total	<u>\$ 318,057,209</u>	<u>100.00</u>	<u>\$ 354,010,342</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.00		\$ 39.20	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net assets follows:

Governmental Activities:	
Property taxes	\$ 9,899,220
Accounts	848
Intergovernmental	<u>132,271</u>
Total	<u>\$ 10,032,339</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 377,338	\$ -	\$ -	\$ 377,338
Total capital assets, not being depreciated	<u>377,338</u>	<u>-</u>	<u>-</u>	<u>377,338</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,745,417	-	-	1,745,417
Buildings and improvements	13,263,481	-	-	13,263,481
Furniture and equipment	1,422,653	92,263	-	1,514,916
Vehicles	<u>1,765,551</u>	<u>167,815</u>	<u>-</u>	<u>1,933,366</u>
Total capital assets, being depreciated	<u>18,197,102</u>	<u>260,078</u>	<u>-</u>	<u>18,457,180</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(658,311)	(81,050)	-	(739,361)
Buildings and improvements	(9,483,901)	(308,176)	-	(9,792,077)
Furniture and equipment	(1,035,811)	(128,535)	-	(1,164,346)
Vehicles	<u>(1,142,504)</u>	<u>(147,376)</u>	<u>-</u>	<u>(1,289,880)</u>
Total accumulated depreciation	<u>(12,320,527)</u>	<u>(665,137)</u>	<u>-</u>	<u>(12,985,664)</u>
Governmental activities capital assets, net	<u>\$ 6,253,913</u>	<u>\$ (405,059)</u>	<u>\$ -</u>	<u>\$ 5,848,854</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 353,892
Special	8,380
<u>Support Services:</u>	
Pupil	8,041
Instructional Staff	5,630
Administration	25,343
Operations and Maintenance	46,053
Pupil Transportation	132,546
Central	1,095
Extracurricular Activities	71,274
Food Service Operation	<u>12,883</u>
Total depreciation expense	<u>\$ 665,137</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Notes:</u>						
Energy conservation notes	5.84%	\$ 250,000	\$ -	\$ (120,000)	\$ 130,000	\$ 130,000
General obligation notes	6.00%	12,903	-	(12,903)	-	-
Total general obligation notes payable		262,903	-	(132,903)	130,000	130,000
<u>Other Long-Term Obligations:</u>						
Compensated absences		1,813,600	97,389	(116,988)	1,794,001	146,419
Total other long-term obligations		1,813,600	97,389	(116,988)	1,794,001	146,419
Total governmental activities		<u>\$ 2,076,503</u>	<u>\$ 97,389</u>	<u>\$ (249,891)</u>	<u>\$ 1,924,001</u>	<u>\$ 276,419</u>

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

General Obligation Notes: In August 2000, the District issued general obligation notes for the purchase of musical instruments. During 2006, the notes were retired from the Permanent Improvement capital projects fund.

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

- B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

Year Ended	Energy Conservation Notes		
	Principal	Interest	Total
2007	\$ 130,000	\$ 3,900	\$ 133,900

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$31,860,931, an unvoted debt margin of \$354,010, and an energy conservation debt margin of \$3,056,093.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

The District had the following coverages in effect for fiscal year 2006:

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been significant reductions in coverage from the previous year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Health Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to a third party administrator who in turn pays the claims on the District's behalf. The claims liability of \$75,344 reported in the internal service fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be reported. Changes in claims activity for the current and past fiscal year is as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2006	\$ 206,923	\$ 1,726,198	\$ (1,857,777)	\$ 75,344
2005	205,961	2,265,049	(2,264,087)	206,923

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

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

C. Workers' Compensation

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$307,923, \$304,324, and \$368,912; 49.51 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$155,481 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - PENSION PLANS - (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,274,557, \$1,220,513 and \$1,246,534; 83.26 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$213,401 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,577 made by the District and \$15,229 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 obligations 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.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$98,043 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$155,476 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 130,384
Net adjustment for revenue accruals	(769,568)
Net adjustment for expenditure accruals	(1,366)
Net adjustment for other sources/(uses)	(183,991)
Adjustment for encumbrances	<u>21,370</u>
GAAP basis	<u>\$ (803,171)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not involved in litigation as either plaintiff or defendant.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ (1,677,590)	\$ (585,000)	\$ 81,351
Current year set-aside requirement	398,058	398,058	-
Offset	-	(481,988)	-
Offset - debt related levy for capital	-	(120,000)	-
Qualifying disbursements	<u>(634,319)</u>	<u>(379,889)</u>	<u>-</u>
Total	<u>\$ (1,913,851)</u>	<u>\$ (1,168,819)</u>	<u>\$ 81,351</u>
Balance carried forward to FY 2007	<u>\$ (1,913,851)</u>	<u>\$ (705,000)</u>	<u>\$ 81,351</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 16 - STATUTORY RESERVES

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

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

In addition to the above statutory reserves, the District also received monies restricted by state statute for school bus purchases.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for BWC refunds	\$ 81,351
Amount restricted for school bus purchases	<u>10,587</u>
Total restricted asset	<u><u>\$ 91,938</u></u>

SUPPLEMENTAL DATA

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 67,714	\$ -	\$ 67,714
(A), (C) National School Lunch Program	10.555	049437-LLP4-2005	21,183	-	21,183	-
(A), (C) National School Lunch Program	10.555	049437-LLP4-2006	113,954	-	113,954	-
Total U.S. Department of Agriculture and Nutrition Cluster			<u>135,137</u>	<u>67,714</u>	<u>135,137</u>	<u>67,714</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	049437-C1S1-2005	1,818		-	
Title I - Grants to Local Educational Agencies	84.010	049437-C1S1-2006	57,963		57,963	
Total Title I			<u>59,781</u>		<u>57,963</u>	
Special Education - Grants to States	84.027	049437-6BSF-2005	7,302		18,535	
Special Education - Grants to States	84.027	049437-6BSF-2006	424,894		422,689	
Total Special Education - Grants to States			<u>432,196</u>		<u>441,224</u>	
Safe and Drug-Free Schools and Communities - State Grants	84.186	049437-DRS1-2006	7,444		7,444	
(E) State Grants for Innovative Programs	84.298	049437-C2S1-2005	(1,243)		1,023	
State Grants for Innovative Programs	84.298	049437-C2S1-2006	10,632		12,521	
Total State Grants for Innovative Programs			<u>9,389</u>		<u>13,544</u>	
(F) Education Technology State Grants	84.318	049437-TJS1-2005	(309)		-	
Education Technology State Grants	84.318	049437-TJS1-2006	505		1,027	
Total Education Technology State Grants			<u>196</u>		<u>1,027</u>	
(G) Improving Teacher Quality State Grants	84.367	049437-TRS1-2005	(13,335)		4,520	
Improving Teacher Quality State Grants	84.367	049437-TRS1-2006	37,346		58,718	
Total Improving Teacher Quality State Grants			<u>24,011</u>		<u>63,238</u>	
Total U.S. Department of Education			<u>533,017</u>		<u>584,440</u>	
Total Federal Financial Assistance			<u>\$ 668,154</u>	<u>\$ 67,714</u>	<u>\$ 719,577</u>	<u>\$ 67,714</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(C) Co-mingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(D) This schedule was prepared on the cash basis of accounting.
(E) Amount of \$1,243 carried over to fiscal year 2006 grant based on Ohio Department of Education administrative action.
(F) Amount of \$309 carried over to fiscal year 2006 grant based on Ohio Department of Education administrative action.
(G) Amount of \$13,335 carried over to fiscal year 2006 grant based on Ohio Department of Education administrative action.



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

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

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lexington Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that we have reported to the management of Lexington Local School District in a separate letter dated November 14, 2006.

Board of Education
Lexington Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lexington Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted two matters that we reported to the management of Lexington Local School District in a separate letter dated November 14, 2006.

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

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

Julian & Grube, Inc.
November 14, 2006



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

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

Compliance

We have audited the compliance of the Lexington Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2006. The Lexington Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Lexington Local School District's management. Our responsibility is to express an opinion on the Lexington Local School District's compliance based on our audit.

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

Board of Education
Lexington Local School District

In our opinion, Lexington Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

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

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

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



Julian & Grube, Inc.
November 14, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 13, 2007