

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2008***

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 & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. 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

December 22, 2008

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

| | |
|---|---------|
| Independent Auditor’s Report | 1 - 2 |
| Management’s Discussion and Analysis | 3 - 12 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 15 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities..... | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund | 19 |
| Statement of Net Assets - Proprietary Fund | 20 |
| Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund | 21 |
| Statement of Cash Flows - Proprietary Fund..... | 22 |
| Statement of Fiduciary Net Assets - Fiduciary Fund..... | 23 |
| Notes to the Basic Financial Statements..... | 24 - 50 |
| Supplementary Data: | |
| Schedule of Receipts and Expenditures of Federal Awards | 51 |
| 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 <i>Government Auditing Standards</i> | 52 - 53 |
| Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> | 54 - 55 |
| Schedule of Findings <i>OMB Circular A-133 § .505</i> | 56 |
| Status of Prior Audit Findings <i>OMB Circular A-133 § .505</i> | 57 |



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 Lexington Local School District, Richland County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Lexington Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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.

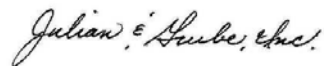
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Lexington Local School District, as of June 30, 2008, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008, on our consideration of Lexington Local School 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.

The 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Lexington Local School District
Page Two

Our audit was conducted 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. The schedule of receipts and expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
December 16, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

This management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities decreased \$2,453 which represents a .03% decrease from 2007.
- General revenues accounted for \$20,904,970 in revenue or 87.16% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,078,481 or 12.84% of total revenues of \$23,983,451.
- The District had \$23,985,904 in expenses related to governmental activities; only \$3,078,481 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 \$20,904,970 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$21,229,979 in revenues and other financing sources and \$20,635,661 in expenditures. During fiscal year 2008, the general fund's fund balance increased \$589,939 from \$2,768,696 to \$3,358,635.

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 2008?" 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, 2008**

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* that 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 statement 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, 2008

Notes to the Basic Financial Statements

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

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2008 and 2007.

| | Net Assets | |
|--|---|---|
| | Governmental Activities <u>2008</u> | Governmental Activities <u>2007</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 14,652,869 | \$ 14,767,921 |
| Capital assets | <u>5,656,854</u> | <u>5,791,833</u> |
| Total assets | <u>20,309,723</u> | <u>20,559,754</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 9,976,212 | 10,656,634 |
| Long-term liabilities | <u>2,288,327</u> | <u>1,855,483</u> |
| Total liabilities | <u>12,264,539</u> | <u>12,512,117</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 5,509,834 | 5,791,833 |
| Restricted | 417,615 | 146,498 |
| Unrestricted | <u>2,117,735</u> | <u>2,109,306</u> |
| Total net assets | <u>\$ 8,045,184</u> | <u>\$ 8,047,637</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$8,045,184. At year-end, unrestricted net assets were \$2,117,735.

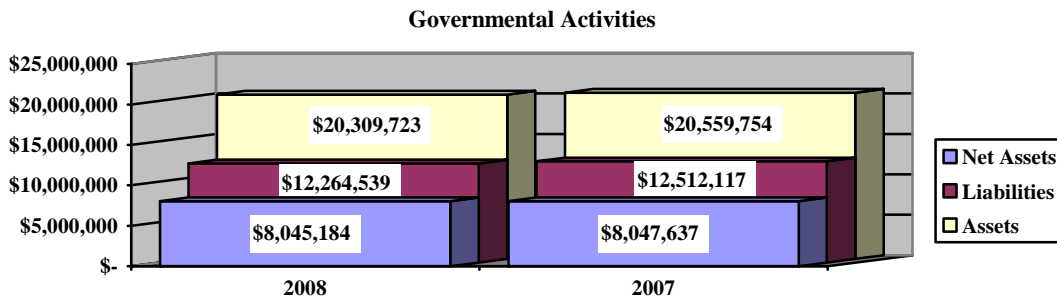
**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At year-end, capital assets represented 27.85% 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, 2008 were \$5,509,834. 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, \$417,615, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,117,735 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's Governmental Activities assets, liabilities, and net assets for fiscal years 2008 and 2007.



The table below shows the change in net assets for fiscal years 2008 and 2007.

| | Change in Net Assets | |
|------------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2008 | Governmental Activities 2007 |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 951,239 | \$ 1,169,589 |
| Operating grants and contributions | 2,117,613 | 1,697,795 |
| Capital grants and contributions | 9,629 | 35,132 |
| General revenues: | | |
| Property taxes | 10,444,011 | 10,071,293 |
| Grants and entitlements | 10,205,287 | 9,897,084 |
| Investment earnings | 212,213 | 220,651 |
| Other | 43,459 | 49,952 |
| Total revenues | \$ 23,983,451 | \$ 23,141,496 |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Change in Net Assets

| | Governmental Activities <u>2008</u> | Governmental Activities <u>2007</u> |
|--|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 10,291,347 | \$ 9,656,854 |
| Special | 2,082,397 | 1,888,395 |
| Other | 886,355 | 784,679 |
| Support services: | | |
| Pupil | 721,007 | 659,803 |
| Instructional staff | 1,561,140 | 1,450,349 |
| Board of education | 24,589 | 24,288 |
| Administration | 1,891,779 | 1,894,494 |
| Fiscal | 538,546 | 442,183 |
| Business | 8,669 | 14,033 |
| Operations and maintenance | 2,002,899 | 1,964,298 |
| Pupil transportation | 1,331,057 | 1,007,351 |
| Central | 453,108 | 153,720 |
| Operations of non-instructional services | 13,021 | 23,370 |
| Extracurricular activities | 1,170,729 | 1,143,648 |
| Food service operations | 1,008,580 | 897,107 |
| Interest and fiscal charges | <u>681</u> | <u>1,613</u> |
| Total expenses | <u>23,985,904</u> | <u>22,006,185</u> |
| Change in net assets | (2,453) | 1,135,311 |
| Net assets at beginning of year | <u>8,047,637</u> | <u>6,912,326</u> |
| Net assets at end of year | <u>\$ 8,045,184</u> | <u>\$ 8,047,637</u> |

Governmental Activities

Net assets of the District's governmental activities decreased \$2,453. Total governmental expenses of \$23,985,904 were offset by program revenues of \$3,078,481 and general revenues of \$20,904,970. Program revenues supported 12.83% 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 86.10% of total governmental revenue. Real estate property is reappraised every six years.

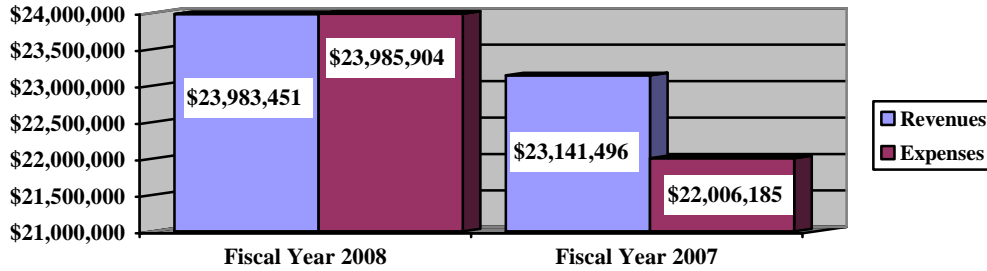
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,260,099 or 55.28% of total governmental expenses for fiscal year 2008.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

Governmental Activities - Revenues and Expenses



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

| | Governmental Activities | | | |
|--|--|--|--|--|
| | Total Cost of Services <u>2008</u> | Net Cost of Services <u>2008</u> | Total Cost of Services <u>2007</u> | Net Cost of Services <u>2007</u> |
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 10,291,347 | \$ 10,035,747 | \$ 9,656,854 | \$ 9,416,647 |
| Special | 2,082,397 | 932,015 | 1,888,395 | 817,232 |
| Other | 886,355 | 877,347 | 784,679 | 784,679 |
| Support services: | | | | |
| Pupil | 721,007 | 515,614 | 659,803 | 470,356 |
| Instructional staff | 1,561,140 | 1,557,293 | 1,450,349 | 1,416,006 |
| Board of education | 24,589 | 24,589 | 24,288 | 24,288 |
| Administration | 1,891,779 | 1,808,519 | 1,894,494 | 1,806,082 |
| Fiscal | 538,546 | 538,546 | 442,183 | 442,183 |
| Business | 8,669 | 8,669 | 14,033 | 14,033 |
| Operations and maintenance | 2,002,899 | 2,002,899 | 1,964,298 | 1,964,163 |
| Pupil transportation | 1,331,057 | 1,260,996 | 1,007,351 | 913,275 |
| Central | 453,108 | 428,412 | 153,720 | 129,161 |
| Operations of non-instructional services | 13,021 | 13,021 | 23,370 | 23,370 |
| Extracurricular activities | 1,170,729 | 870,763 | 1,143,648 | 884,777 |
| Food service operations | 1,008,580 | 32,312 | 897,107 | (4,196) |
| Interest and fiscal charges | 681 | 681 | 1,613 | 1,613 |
| Total expenses | <u>\$ 23,985,904</u> | <u>\$ 20,907,423</u> | <u>\$ 22,006,185</u> | <u>\$ 19,103,669</u> |

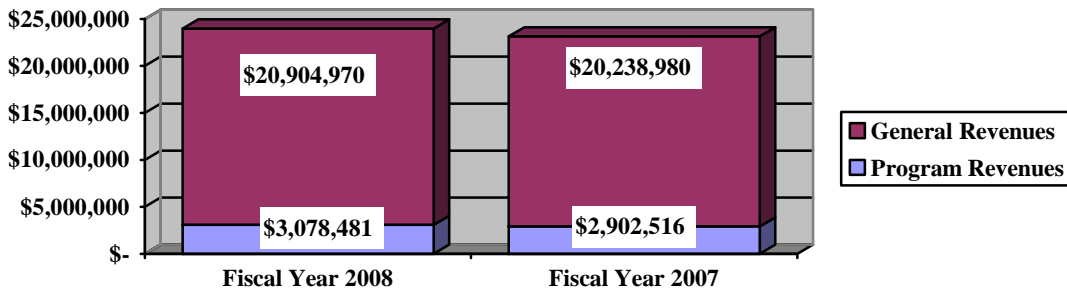
**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The dependence upon tax and other general revenues for governmental activities is apparent, 89.33% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.17%. The District's taxpayers, and grants and entitlements received from the State of Ohio, 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 2008 and 2007.

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 \$3,626,490, which is higher than last year's total of \$2,739,246. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

| | Fund Balance June 30, 2008 | Fund Balance (deficit) June 30, 2007 | <u>Increase</u> |
|--------------------|-------------------------------|--|-------------------|
| General | \$ 3,358,635 | \$ 2,768,696 | \$ 589,939 |
| Other Governmental | <u>267,855</u> | <u>(29,450)</u> | <u>297,305</u> |
| Total | <u>\$ 3,626,490</u> | <u>\$ 2,739,246</u> | <u>\$ 887,244</u> |

General Fund

The District's general fund balance increased \$589,939. The increase in fund balance can be attributed to an increase in tax revenue, tuition and intergovernmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | <u>2008</u> <u>Amount</u> | <u>2007</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 9,689,740 | \$ 9,471,692 | 2.30 % |
| Tuition | 89,078 | 76,180 | 16.93 % |
| Earnings on investments | 210,662 | 218,707 | (3.68) % |
| Classroom materials and fees | 83,159 | 84,768 | (1.90) % |
| Intergovernmental | 10,958,444 | 10,591,007 | 3.47 % |
| Other local revenues | <u>43,459</u> | <u>49,952</u> | (13.00) % |
| Total | <u>\$ 21,074,542</u> | <u>\$ 20,492,306</u> | 2.84 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 12,097,958 | \$ 11,542,637 | 4.81 % |
| Support services | 7,510,715 | 6,879,037 | 9.18 % |
| Operation of non-instructional services | 13,021 | 23,370 | (44.28) % |
| Extracurricular activities | 822,147 | 821,975 | 0.02 % |
| Capital outlay | 155,437 | - | 100.00 % |
| Debt service | <u>36,383</u> | <u>33,900</u> | 7.32 % |
| Total | <u>\$ 20,635,661</u> | <u>\$ 19,300,919</u> | 6.92 % |

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 year 2008, the District did not amend its general fund budget revenues therefore the original budget and final budget are the same. For the general fund, original and final budgeted revenues and other financing sources were \$20,324,197. Actual revenues and other financing sources for fiscal year 2008 was \$21,008,794. This represents a \$684,597 increase from budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$20,548,094 were increased to \$20,748,094 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$20,667,541, which was \$80,553 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the District had \$5,656,854 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 year 2008 balances compared to 2007:

| Capital Assets at June 30 (Net of Depreciation) | | |
|--|----------------------------|----------------------------|
| <u>Governmental Activities</u> | | |
| | <u>2008</u> | <u>2007</u> |
| Land | \$ 738,301 | \$ 738,301 |
| Land improvements | 865,017 | 925,987 |
| Building and improvements | 2,864,116 | 3,166,568 |
| Furniture and equipment | 514,696 | 298,209 |
| Vehicles | <u>674,724</u> | <u>662,768</u> |
| Total | <u>\$ 5,656,854</u> | <u>\$ 5,791,833</u> |

Total additions to capital assets for 2008 were \$470,902. The overall decrease in capital assets of \$134,979 is primarily due to depreciation expense of \$605,881 exceeding additions for fiscal year 2008. See Note 8 for further details on capital assets.

Debt Administration

At June 30, 2008, the District had \$126,002 in capital lease obligations outstanding and \$218,744 in lease purchase agreements outstanding. Of this total, \$133,564 is due within one year and \$211,182 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal year 2008 compared to 2007.

| Outstanding Debt, at Year End | | |
|--------------------------------------|---|---|
| | <u>Governmental Activities 2008</u> | <u>Governmental Activities 2007</u> |
| Capital lease obligations | \$ 126,002 | \$ - |
| Lease purchase agreement | <u>218,744</u> | <u>-</u> |
| Total | <u>\$ 344,746</u> | <u>\$ -</u> |

At June 30, 2008, the District's overall legal debt margin was \$31,262,031 with an unvoted debt margin of \$347,356. The District maintains an A-1 bond rating.

See Note 11 for further details on the District's long-term debt.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Current Financial Related Activities

The District is strong financially and has enjoyed great fiscal support from our community. The District is fortunate to have a permanent improvement levy which gives them the ability to keep facilities, vehicles, technology and instructional materials up to date for the best service to students.

State and federal funding play a key role in the operation of the Lexington Local Schools. Due to the population of special needs students served, the District receives a significant amount of IDEA funding. Other revenue from the federal government is relatively nominal, but nevertheless helpful in funding professional development for staff, innovative programs, reading initiatives, substance abuse education and technology updates. The District also receives a small amount of EMIS, Gifted ID and Bus Purchase funding from the State of Ohio. The District's State Foundation payments did not increase for fiscal year 2008 and are not projected to increase over the next two years. The District's Parity Aid, which has been around \$700,000 annually, has been eliminated. The biennial budget under the new Governor has changed the threshold for districts to qualify for this additional funding leaving the District out. Luckily, the 'guarantee' has kicked in to restore the funding through the Foundation calculations.

The District's enrollment has remained fairly steady, with only slight decreases over the years. The District has a small but steady stream of revenue from local businesses which are very supportive of the schools. Lexington is primarily a residential community and the District is widely considered to contain some of the premier schools in Richland County, routinely earning excellent status on State report cards. The District's cost per pupil is near the bottom of the list for area schools and the District takes great pride in the quality of education provided by the District.

In March, 2008 the District was on the ballot, asking voter approval for an emergency levy to avoid a projected deficit in fiscal year 2010. Unfortunately, the District was not successful. However, shortly after the defeat of the levy, the District received an unexpected influx in tax revenue as a result of large amounts of delinquent taxes being collected. For this reason, along with lower expenditures in salaries, the District completed fiscal year 2008 with a higher carryover balance than projected. The outcome of these changes is that the District now hopes to postpone asking for additional tax funding for a few more years.

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

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, 2008

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. . . | \$ 5,073,151 |
| Cash in segregated accounts. | 1,923 |
| Receivables: | |
| Taxes | 9,372,653 |
| Intergovernmental | 125,613 |
| Prepayments. | 10,228 |
| Materials and supplies inventory | 69,301 |
| Capital assets: | |
| Land | 738,301 |
| Depreciable capital assets, net | 4,918,553 |
| Total capital assets | 5,656,854 |
| Total assets. | 20,309,723 |
| Liabilities: | |
| Accounts payable. | 1,688 |
| Accrued wages and benefits | 2,193,839 |
| Pension obligation payable. | 515,957 |
| Intergovernmental payable | 103,036 |
| Unearned revenue | 6,812,030 |
| Matured bonds payable. | 1,923 |
| Claims payable | 347,739 |
| Long-term liabilities: | |
| Due within one year. | 377,733 |
| Due in more than one year | 1,910,594 |
| Total liabilities | 12,264,539 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 5,509,834 |
| Restricted for: | |
| Capital projects | 256,283 |
| Locally funded programs | 6,608 |
| State funded programs | 20,335 |
| Federally funded programs | 2,233 |
| Student activities. | 41,176 |
| Other purposes. | 90,980 |
| Unrestricted | 2,117,735 |
| Total net assets | \$ 8,045,184 |

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, 2008

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 10,291,347 | \$ 150,029 | \$ 105,571 | \$ - | \$ (10,035,747) |
| Special | 2,082,397 | 22,844 | 1,127,538 | - | (932,015) |
| Other | 886,355 | - | 9,008 | - | (877,347) |
| Support services: | | | | | |
| Pupil. | 721,007 | - | 205,393 | - | (515,614) |
| Instructional staff | 1,561,140 | - | 3,847 | - | (1,557,293) |
| Board of education. | 24,589 | - | - | - | (24,589) |
| Administration. | 1,891,779 | 64,486 | 18,774 | - | (1,808,519) |
| Fiscal | 538,546 | - | - | - | (538,546) |
| Business. | 8,669 | - | - | - | (8,669) |
| Operations and maintenance | 2,002,899 | - | - | - | (2,002,899) |
| Pupil transportation | 1,331,057 | - | 60,432 | 9,629 | (1,260,996) |
| Central | 453,108 | - | 24,696 | - | (428,412) |
| Operation of non-instructional services | 13,021 | - | - | - | (13,021) |
| Extracurricular activities | 1,170,729 | 2,010 | 297,956 | - | (870,763) |
| Food service operations | 1,008,580 | 711,870 | 264,398 | - | (32,312) |
| Interest and fiscal charges | 681 | - | - | - | (681) |
| Totals | \$ 23,985,904 | \$ 951,239 | \$ 2,117,613 | \$ 9,629 | (20,907,423) |

General Revenues:

| | |
|---|---------------------|
| Property taxes levied for: | |
| General purposes | 9,755,561 |
| Capital projects | 688,450 |
| Grants and entitlements not restricted | |
| to specific programs | 10,205,287 |
| Investment earnings | 212,213 |
| Miscellaneous | 43,459 |
| Total general revenues. | 20,904,970 |
| Change in net assets | (2,453) |
| Net assets at beginning of year. | 8,047,637 |
| Net assets at end of year | \$ 8,045,184 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 3,890,758 | \$ 444,563 | \$ 4,335,321 |
| Cash in segregated accounts | - | 1,923 | 1,923 |
| Receivables: | | | |
| Taxes. | 8,571,783 | 800,870 | 9,372,653 |
| Intergovernmental | 120,569 | 5,044 | 125,613 |
| Interfund loan. | 210,107 | - | 210,107 |
| Prepayments | 10,228 | - | 10,228 |
| Materials and supplies inventory. | 39,067 | 30,234 | 69,301 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents. | 90,980 | - | 90,980 |
| Total assets | <u>\$ 12,933,492</u> | <u>\$ 1,282,634</u> | <u>\$ 14,216,126</u> |
| Liabilities: | | | |
| Accounts payable. | \$ 473 | \$ 1,215 | \$ 1,688 |
| Accrued wages and benefits | 2,094,550 | 99,289 | 2,193,839 |
| Compensated absences payable. | 166,821 | 15,312 | 182,133 |
| Pension obligation payable | 467,932 | 48,025 | 515,957 |
| Intergovernmental payable | 98,348 | 4,688 | 103,036 |
| Interfund loan payable | - | 210,107 | 210,107 |
| Matured bonds payable. | - | 1,923 | 1,923 |
| Deferred revenue | 521,742 | 47,181 | 568,923 |
| Unearned revenue | 6,224,991 | 587,039 | 6,812,030 |
| Total liabilities | <u>9,574,857</u> | <u>1,014,779</u> | <u>10,589,636</u> |
| Fund Balances: | | | |
| Reserved for encumbrances. | 31,413 | 45,802 | 77,215 |
| Reserved for materials and supplies inventory | 39,067 | 30,234 | 69,301 |
| Reserved for prepayments | 10,228 | - | 10,228 |
| Reserved for property tax unavailable for appropriation. | 1,775,009 | 162,961 | 1,937,970 |
| Reserved for BWC refunds | 81,351 | - | 81,351 |
| Reserved for school bus purchases | 9,629 | - | 9,629 |
| Unreserved, undesignated, reported in: | | | |
| General fund. | 1,411,938 | - | 1,411,938 |
| Special revenue funds | - | 15,152 | 15,152 |
| Capital projects funds | - | 13,706 | 13,706 |
| Total fund balances | <u>3,358,635</u> | <u>267,855</u> | <u>3,626,490</u> |
| Total liabilities and fund balances | <u>\$ 12,933,492</u> | <u>\$ 1,282,634</u> | <u>\$ 14,216,126</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

| | | | |
|--|----|--------------------|-------------------------|
| Total governmental fund balances | | \$ | 3,626,490 |
| <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. | | | 5,656,854 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Taxes | \$ | <u>568,923</u> | |
| Total | | | 568,923 |
| 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. | | | 299,111 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Lease purchase agreement | | (218,744) | |
| Capital lease obligation | | (126,002) | |
| Compensated absences | | <u>(1,761,448)</u> | |
| Total | | | <u>(2,106,194)</u> |
| Net assets of governmental activities | | \$ | <u><u>8,045,184</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 9,689,740 | \$ 675,893 | \$ 10,365,633 |
| Tuition. | 89,078 | - | 89,078 |
| Charges for services. | - | 708,191 | 708,191 |
| Earnings on investments. | 210,662 | 1,448 | 212,110 |
| Extracurricular. | - | 356,051 | 356,051 |
| Classroom materials and fees | 83,159 | - | 83,159 |
| Other local revenues | 43,459 | 86,044 | 129,503 |
| Intergovernmental - State | 10,958,444 | 136,625 | 11,095,069 |
| Intergovernmental - Federal. | - | 932,946 | 932,946 |
| Total revenue | <u>21,074,542</u> | <u>2,897,198</u> | <u>23,971,740</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 9,620,466 | 120,593 | 9,741,059 |
| Special. | 1,591,137 | 428,554 | 2,019,691 |
| Other | 886,355 | - | 886,355 |
| Support Services: | | | |
| Pupil. | 511,581 | 193,284 | 704,865 |
| Instructional staff | 1,511,855 | 3,788 | 1,515,643 |
| Board of education | 24,589 | - | 24,589 |
| Administration. | 1,793,226 | 90,620 | 1,883,846 |
| Fiscal | 530,673 | 14,331 | 545,004 |
| Business | 8,669 | - | 8,669 |
| Operations and maintenance. | 1,860,554 | 110,194 | 1,970,748 |
| Pupil transportation | 1,173,516 | 182,000 | 1,355,516 |
| Central. | 96,052 | 60,071 | 156,123 |
| Food service operations | - | 984,582 | 984,582 |
| Operation of non-instructional services | 13,021 | - | 13,021 |
| Extracurricular activities. | 822,147 | 288,880 | 1,111,027 |
| Capital outlay | 155,437 | 347,739 | 503,176 |
| Debt service: | | | |
| Principal retirement | 35,736 | 122,694 | 158,430 |
| Interest and fiscal charges | 647 | 34 | 681 |
| Total expenditures | <u>20,635,661</u> | <u>2,947,364</u> | <u>23,583,025</u> |
| Excess of revenues over (under) expenditures | <u>438,881</u> | <u>(50,166)</u> | <u>388,715</u> |
| Other financing sources: | | | |
| Capital lease and lease purchase transactions. | 155,437 | 347,739 | 503,176 |
| Total other financing sources | <u>155,437</u> | <u>347,739</u> | <u>503,176</u> |
| Net change in fund balances | 594,318 | 297,573 | 891,891 |
| Fund balances (deficit) at beginning of year. | 2,768,696 | (29,450) | 2,739,246 |
| Decrease in reserve for inventory | (4,379) | (268) | (4,647) |
| Fund balances at end of year. | <u>\$ 3,358,635</u> | <u>\$ 267,855</u> | <u>\$ 3,626,490</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, 2008

| | | |
|---|------------------|-----------------------|
| Net change in fund balances - total governmental funds | \$ | 891,891 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| <p>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.</p> | | |
| Capital asset additions | \$ 470,902 | |
| Current year depreciation | <u>(605,881)</u> | |
| Total | | (134,979) |
| <p>Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.</p> | | |
| | | (4,647) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| Taxes | 78,378 | |
| Intergovernmental | <u>(68,218)</u> | |
| Total | | 10,160 |
| <p>Repayment of lease principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.</p> | | |
| | | 158,430 |
| <p>Proceeds of capital lease transaction are recorded as revenue in the funds, however, on the statement of activities they are not reported as revenues as they increase liabilities on the statement of net assets.</p> | | |
| | | (503,176) |
| <p>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.</p> | | |
| | | (24,652) |
| <p>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.</p> | | |
| | | <u>(395,480)</u> |
| Change in net assets of governmental activities | \$ | <u>(2,453)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 9,145,917 | \$ 9,145,917 | \$ 9,457,832 | \$ 311,915 |
| Tuition. | 87,007 | 87,007 | 89,974 | 2,967 |
| Earnings on investments. | 203,714 | 203,714 | 210,662 | 6,948 |
| Classroom materials and fees | 80,416 | 80,416 | 83,159 | 2,743 |
| Other local revenues. | 42,026 | 42,026 | 43,459 | 1,433 |
| Intergovernmental - State | 10,480,447 | 10,480,447 | 10,837,875 | 357,428 |
| Total revenues. | <u>20,039,527</u> | <u>20,039,527</u> | <u>20,722,961</u> | <u>683,434</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,595,507 | 9,688,902 | 9,655,274 | 33,628 |
| Special. | 1,581,425 | 1,596,818 | 1,582,731 | 14,087 |
| Other | 882,044 | 890,629 | 887,538 | 3,091 |
| Support Services: | | | | |
| Pupil. | 524,595 | 529,701 | 527,863 | 1,838 |
| Instructional staff | 1,487,020 | 1,501,494 | 1,496,283 | 5,211 |
| Board of education | 23,821 | 24,052 | 23,969 | 83 |
| Administration. | 1,777,612 | 1,794,914 | 1,788,685 | 6,229 |
| Fiscal | 503,042 | 507,938 | 506,175 | 1,763 |
| Business | 8,615 | 8,699 | 8,669 | 30 |
| Operations and maintenance. | 1,843,259 | 1,861,199 | 1,854,740 | 6,459 |
| Pupil transportation | 1,145,290 | 1,156,438 | 1,152,424 | 4,014 |
| Central. | 97,139 | 98,084 | 97,744 | 340 |
| Operation of non-instructional services | 12,940 | 13,066 | 13,021 | 45 |
| Extracurricular activities. | 819,422 | 827,398 | 824,526 | 2,872 |
| Total expenditures | <u>20,301,731</u> | <u>20,499,332</u> | <u>20,419,642</u> | <u>79,690</u> |
| Excess of revenues over (under) expenditures. | <u>(262,204)</u> | <u>(459,805)</u> | <u>303,319</u> | <u>763,124</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 13,970 | 13,970 | 14,446 | 476 |
| Refund of prior year receipts | (37,558) | (37,924) | (37,792) | 132 |
| Advances (out) | (208,805) | (210,838) | (210,107) | 731 |
| Advances in. | 270,700 | 270,700 | 271,387 | 687 |
| Total other financing sources (uses) | <u>38,307</u> | <u>35,908</u> | <u>37,934</u> | <u>2,026</u> |
| Net change in fund balance | (223,897) | (423,897) | 341,253 | 765,150 |
| Fund balance at beginning of year. | 3,576,614 | 3,576,614 | 3,576,614 | - |
| Prior year encumbrances appropriated | 30,926 | 30,926 | 30,926 | - |
| Fund balance at end of year | <u>\$ 3,383,643</u> | <u>\$ 3,183,643</u> | <u>\$ 3,948,793</u> | <u>\$ 765,150</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

| | Governmental Activities - Internal Service Fund |
|---|--|
| | |
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 646,850 |
| | 646,850 |
| Total assets | 646,850 |
| Liabilities: | |
| Claims payable | 347,739 |
| | 347,739 |
| Total liabilities | 347,739 |
| Net assets: | |
| Unrestricted | 299,111 |
| | 299,111 |
| Total net assets | \$ 299,111 |

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, 2008

| | Governmental Activities - Internal Service Fund |
|---|--|
| Operating revenues: | |
| Sales/charges for services. | \$ 2,437,763 |
| Total operating revenues | <u>2,437,763</u> |
| Operating expenses: | |
| Purchased services. | 792,724 |
| Claims expense | <u>2,042,070</u> |
| Total operating expenses. | <u>2,834,794</u> |
| Operating loss | <u>(397,031)</u> |
| Nonoperating revenues: | |
| Interest revenue | <u>1,551</u> |
| Total nonoperating revenues. | <u>1,551</u> |
| Change in net assets | (395,480) |
| Net assets at beginning of year. | <u>694,591</u> |
| Net assets at end of year. | <u><u>\$ 299,111</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, 2008

| | Governmental Activities - Internal Service Fund |
|---|--|
| Cash flows from operating activities: | |
| Cash received from sales/charges for services | \$ 2,437,763 |
| Cash payments for contractual services | (792,724) |
| Cash payments for claims expenses | (1,892,606) |
| | (247,567) |
| Net cash used in operating activities | (247,567) |
| Cash flows from investing activities: | |
| Interest received | 1,551 |
| | 1,551 |
| Net cash provided by investing activities | 1,551 |
| Net decrease in cash and cash equivalents. | (246,016) |
| Cash and cash equivalents at beginning of year. | 892,866 |
| Cash and cash equivalents at end of year | \$ 646,850 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (397,031) |
| Changes in assets and liabilities: | |
| Increase in claims payable | 149,464 |
| | 149,464 |
| Net cash used in operating activities | \$ (247,567) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

| | <u>Agency</u> |
|---|-------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ <u>53,833</u> |
| Total assets | \$ <u><u>53,833</u></u> |
| Liabilities: | |
| Due to students | \$ <u>53,833</u> |
| Total liabilities | \$ <u><u>53,833</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 181st largest by total enrollment among the 896 public and community school districts in the State. It currently operates 5 instructional facilities. The District employs 130 non-certified and 182 certified employees to provide services to approximately 2,630 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 organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

JOINT VENTURE WITHOUT EQUITY INTEREST

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

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2008, the District paid \$132,262 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

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, 2008**

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, 2008**

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, 2008

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

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 2008 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 original and final Amended Certificate of estimated resources issued for fiscal year 2008.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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 2008.
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 2008, 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 year 2008. 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 shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$210,662, which includes \$46,668 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, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government-wide financial statements and the purchases method on the fund financial statements.

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, 2008

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

I. Interfund Balances

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

J. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, 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 sick leave on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008 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 and compensated absences 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, Bureau of Workers' Compensation (BWC) refunds, prepayments 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

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 BWC refunds and school bus purchases.

The District applies restricted resources first 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 18 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

R. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

S. 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 15) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

| <u>Nonmajor funds</u> | <u>Deficit</u> |
|--------------------------------|----------------|
| Food service | \$ 5,997 |
| EMIS | 64 |
| IDEA, Part B Special Education | 6,798 |
| Title I | 291 |
| Improving Teacher Quality | 12,639 |

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.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

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

B. Cash in Segregated Account

At fiscal year-end, \$1,923 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".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$5,067,300. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$5,156,903 of the District's bank balance of \$5,356,903 was exposed to custodial risk as discussed below, while \$200,000 was covered by the 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. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2008, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturity</u> 6 months or less |
|------------------------|-------------------|---|
| STAR Ohio | <u>\$ 56,242</u> | <u>\$ 56,242</u> |

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: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2008:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|-------------------|-------------------|
| STAR Ohio | \$ <u>56,242</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 note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

| <u>Cash and investments per note</u> | |
|---|---------------------|
| Carrying amount of deposits | \$ 5,067,300 |
| Investments | 56,242 |
| Cash on hand | <u>5,365</u> |
| Total | <u>\$ 5,128,907</u> |
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 5,075,074 |
| Agency funds | <u>53,833</u> |
| Total | <u>\$ 5,128,907</u> |

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2008 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 governmental funds | <u>\$ 210,107</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, 2008 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, 2008**

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 year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property is being phased-out. For 2007, tangible personal property is assessed at 12.5% for property including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. 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 2008-2010, 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 and Morrow County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2008, are available to finance fiscal year 2008 operations.

The amount available as an advance at June 30, 2008 was \$1,775,009 in the general fund and \$162,961 in the permanent improvement fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amount that was available as advance at June 30, 2007 was \$1,390,099 in the general fund and \$106,786 in the permanent improvement fund (a nonmajor governmental fund).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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 unearned revenue.

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 unearned revenue.

The assessed values upon which the fiscal year 2008 taxes were collected are:

| | <u>2007 Second</u> | | <u>2008 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 | \$ 336,754,010 | 94.08 | \$ 341,329,440 | 96.33 |
| Public utility personal | 7,446,530 | 2.08 | 6,192,360 | 1.75 |
| Tangible personal property | <u>13,727,090</u> | <u>3.84</u> | <u>6,800,198</u> | <u>1.92</u> |
| Total | <u>\$ 357,927,630</u> | <u>100.00</u> | <u>\$ 354,321,998</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | | \$39.10 | | \$39.20 |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes 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 | \$ 9,372,653 |
| Intergovernmental | <u>125,613</u> |
| Total | <u>\$ 9,498,266</u> |

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

| | <u>Balance</u> <u>06/30/07</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>06/30/08</u> |
|---|-----------------------------------|---------------------|-------------------|-----------------------------------|
| Governmental activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 738,301 | \$ - | \$ - | \$ 738,301 |
| Total capital assets, not being depreciated | <u>738,301</u> | <u>-</u> | <u>-</u> | <u>738,301</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,745,417 | 18,347 | - | 1,763,764 |
| Buildings and improvements | 13,263,481 | - | - | 13,263,481 |
| Furniture and equipment | 1,555,278 | 294,285 | - | 1,849,563 |
| Vehicles | <u>2,107,312</u> | <u>158,270</u> | <u>-</u> | <u>2,265,582</u> |
| Total capital assets, being depreciated | <u>18,671,488</u> | <u>470,902</u> | <u>-</u> | <u>19,142,390</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land improvements | (819,430) | (79,317) | - | (898,747) |
| Buildings and improvements | (10,096,913) | (302,452) | - | (10,399,365) |
| Furniture and equipment | (1,257,069) | (77,798) | - | (1,334,867) |
| Vehicles | <u>(1,444,544)</u> | <u>(146,314)</u> | <u>-</u> | <u>(1,590,858)</u> |
| Total accumulated depreciation | <u>(13,617,956)</u> | <u>(605,881)</u> | <u>-</u> | <u>(14,223,837)</u> |
| Governmental activities capital assets, net | <u>\$ 5,791,833</u> | <u>\$ (134,979)</u> | <u>\$ -</u> | <u>\$ 5,656,854</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 284,133 |
| Special | 8,054 |
| <u>Support Services:</u> | |
| Pupil | 7,783 |
| Instructional staff | 4,739 |
| Administration | 26,727 |
| Fiscal | 370 |
| Operations and maintenance | 50,483 |
| Pupil transportation | 131,595 |
| Central | 5,692 |
| Extracurricular activities | 71,190 |
| Food service operation | <u>15,115</u> |
| Total depreciation expense | <u>\$ 605,881</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the current fiscal year, the District entered into a capitalized lease for the acquisition of copiers. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of computers have been capitalized in the amount of \$163,618. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$13,635 leaving a current book value of \$149,983. Capital lease payments have been reflected as debt service expenditures in the general fund, the food service fund (a nonmajor governmental fund) and the district-managed activity fund (a nonmajor governmental fund). Principal payments in fiscal year 2008 totaled \$37,616.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

| <u>Fiscal Year</u> <u>Ending June 30,</u> | <u>Amount</u> |
|--|-------------------|
| 2009 | \$ 38,297 |
| 2010 | 38,297 |
| 2011 | 38,297 |
| 2012 | <u>38,297</u> |
| Total | 153,188 |
| Less: amount representing interest | <u>(27,186)</u> |
| Total | <u>\$ 126,002</u> |

NOTE 10 - LEASE-PURCHASE AGREEMENT

In the current fiscal year, the District entered into a lease-purchase agreement with Leaf Financial Corporation for new computers and equipment. This lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Capital assets consisting of equipment have been capitalized in the amount of \$35,484. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$2,957 leaving a current book value of \$32,527. Computer equipment in the amount of \$304,074 has not been capitalized since the assets individually do not meet the District's capitalization threshold. At June 30, 2008 the liability of the capitalized lease-purchase assets was \$21,018. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund (a nonmajor governmental fund). Principal payments in fiscal year 2008 totaled \$120,814.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LEASE-PURCHASE AGREEMENT - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase and the present value of the minimum lease payments as of June 30, 2008.

| Fiscal Year Ending June 30, | Equipment |
|---|-------------------|
| 2009 | \$ 120,814 |
| 2010 | <u>120,815</u> |
| Total minimum lease payment | 241,629 |
| Less: amount representing interest | <u>(22,885)</u> |
| Present value of minimum lease payments | <u>\$ 218,744</u> |

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

| | Balance Outstanding <u>06/30/07</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>06/30/08</u> | Amounts Due in <u>One Year</u> |
|---------------------------------|---|-------------------|---------------------|---|--------------------------------------|
| Governmental Activities: | | | | | |
| Lease purchase agreement | \$ - | \$ 339,558 | \$ (120,814) | \$ 218,744 | \$ 105,725 |
| Capital lease obligation | - | 163,618 | (37,616) | 126,002 | 27,839 |
| Compensated absences | <u>1,855,483</u> | <u>262,614</u> | <u>(174,516)</u> | <u>1,943,581</u> | <u>244,169</u> |
| Total governmental activities | <u>\$ 1,855,483</u> | <u>\$ 765,790</u> | <u>\$ (332,946)</u> | <u>\$ 2,288,327</u> | <u>\$ 377,733</u> |

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which for the District is primarily the general fund and food service fund (a nonmajor governmental fund).

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$31,262,031 and an unvoted debt margin of \$347,356.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - 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 13 - 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 2008:

| <u>Coverage</u> | <u>Limits of Coverage</u> | <u>Deductible</u> |
|-----------------------|-------------------------------|-------------------|
| General liability: | | |
| Each occurrence | \$ 1,000,000 | \$ - |
| Aggregate | 2,000,000 | - |
| Umbrella | 5,000,000 | 10,000 |
| Fleet: | | |
| Comprehensive | 1,000,000 | 500 |
| Collision | 1,000,000 | 500 |
| Building and contents | 51,309,956 | 1,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no 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, 2008

NOTE 13 - 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 \$347,739 reported in the internal service fund at June 30, 2008, 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 |
|------|---------------------------------|------------------------|-----------------|---------------------------|
| 2008 | \$ 198,275 | \$ 2,042,070 | \$ (1,892,606) | \$ 347,739 |
| 2007 | 75,344 | 2,020,190 | (1,897,259) | 198,275 |

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. 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, 2008

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$278,000, \$291,173, and \$285,222, respectively; 48.05% percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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, 2008**

NOTE 14 - 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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 recommendations 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 pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,281,384, \$1,259,842 and \$1,274,557, respectively; 83.78% has been contributed for fiscal year 2008 and 100% for the fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$12,260 made by the District and \$24,684 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$186,430, \$155,604 and \$155,476, respectively; 48.05 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$20,031, \$19,800 and \$22,701, respectively; 48.05 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$98,568, \$96,911 and \$98,043, respectively; 83.78 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 16 - 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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

| Net Change in Fund Balance | <u>General fund</u> |
|---|---------------------|
| Budget basis | \$ 341,253 |
| Net adjustment for revenue accruals | 351,581 |
| Net adjustment for expenditure accruals | (248,964) |
| Net adjustment for other sources/(uses) | 117,503 |
| Adjustment for encumbrances | <u>32,945</u> |
| GAAP basis | <u>\$ 594,318</u> |

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 18 - 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, 2008, the reserve activity was as follows:

| | Textbooks/ Instructional <u>Materials</u> | Capital <u>Acquisition</u> | <u>BWC Refunds</u> |
|---------------------------------------|---|-------------------------------|--------------------|
| Set-aside balance as of June 30, 2007 | \$ (2,033,605) | \$ (835,000) | \$ 81,351 |
| Current year set-aside requirement | 408,866 | 408,866 | - |
| Offsets | - | (631,018) | - |
| Qualifying disbursements | <u>(727,598)</u> | <u>(150,922)</u> | <u>-</u> |
| Total | <u>\$ (2,352,337)</u> | <u>\$ (1,208,074)</u> | <u>\$ 81,351</u> |
| Balance carried forward to FY 2009 | <u>\$ (2,352,337)</u> | <u>\$ (835,000)</u> | <u>\$ 81,351</u> |

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

The District had qualifying disbursements during the fiscal 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 offsets that may be used to offset current set-a-side requirements, however may not be carried forward to future years. Excess qualifying disbursements also may not be carried forward to future years.

In addition to the above statutory reserves, the District has \$9,629 in cash restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2008 follows:

| | |
|--|------------------|
| Fund balance - reserved for school bus purchases | \$ 9,629 |
| Fund balance - reserved for BWC refunds | <u>81,351</u> |
| Total restricted assets | <u>\$ 90,980</u> |

SUPPLEMENTARY DATA

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | (A) PASS-THROUGH GRANT NUMBER | (B) CASH FEDERAL RECEIPTS | (B) CASH FEDERAL DISBURSEMENTS |
|---|----------------|--|------------------------------------|---|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| (C) Food Donation | 10.550 | 2008 | \$ 61,354 | \$ 61,354 |
| Total Food Donation | | | <u>61,354</u> | <u>61,354</u> |
| (D) National School Lunch Program | 10.555 | 2007 | 44,748 | 44,748 |
| (D) National School Lunch Program | 10.555 | 2008 | 196,478 | 196,478 |
| Total National School Lunch Program | | | <u>241,226</u> | <u>241,226</u> |
| Total U.S. Department of Agriculture | | | <u>302,580</u> | <u>302,580</u> |
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| (E) Title I Grants to Local Educational Agencies | 84.010 | 2007 | (206) | 3,163 |
| (E) Title I Grants to Local Educational Agencies | 84.010 | 2008 | 61,502 | 61,502 |
| Total Title I Grants to Local Educational Agencies | | | <u>61,296</u> | <u>64,665</u> |
| Special Education _Grants to States | 84.027 | 2007 | 124,044 | 46,428 |
| Special Education _Grants to States | 84.027 | 2008 | 494,398 | 494,398 |
| Total Special Education _Grants to States | | | <u>618,442</u> | <u>540,826</u> |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2007 | - | 60 |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2008 | 5,792 | 5,792 |
| Total Safe and Drug-Free Schools and Communities_State Grant | | | <u>5,792</u> | <u>5,852</u> |
| State Grants for Innovative Programs | 84.298 | 2007 | - | 69 |
| State Grants for Innovative Programs | 84.298 | 2008 | 4,050 | 1,944 |
| Total State Grants for Innovative Programs | | | <u>4,050</u> | <u>2,013</u> |
| Education Technology State Grants | 84.318 | 2008 | 475 | 348 |
| Total Education Technology State Grants | | | <u>475</u> | <u>348</u> |
| (E) Improving Teacher Quality State Grants | 84.367 | 2006 | (661) | - |
| (E) Improving Teacher Quality State Grants | 84.367 | 2007 | (3,072) | - |
| (E) Improving Teacher Quality State Grants | 84.367 | 2008 | 51,958 | 47,535 |
| Total Improving Teacher Quality State Grants | | | <u>48,225</u> | <u>47,535</u> |
| Total U.S. Department of Education | | | <u>738,280</u> | <u>661,239</u> |
| Total Federal Financial Assistance | | | <u>\$ 1,040,860</u> | <u>\$ 963,819</u> |

- (A) OAKS did not assign pass-through numbers for fiscal year 2008
(B) This schedule was prepared on the cash basis of accounting.
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value
(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(E) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District may transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2008, the ODE authorized the following transfers

| Program Title | CFDA | Grant Year | Transfers Out | Transfers In |
|--|--------|------------|-----------------|-----------------|
| Title I Grants to Local Educational Agencies | 84.010 | 2007 | \$ 206 | |
| Title I Grants to Local Educational Agencies | 84.010 | 2008 | | \$ 206 |
| Improving Teacher Quality State Grants | 84.367 | 2006 | 661 | |
| Improving Teacher Quality State Grants | 84.367 | 2007 | 3,733 | 661 |
| Improving Teacher Quality State Grants | 84.367 | 2008 | | 3,733 |
| Totals | | | <u>\$ 4,600</u> | <u>\$ 4,600</u> |



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Lexington Local School District as of and for the fiscal year ended June 30, 2008, which collectively comprise Lexington Local School District's basic financial statements and have issued our report thereon dated December 16, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lexington Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Lexington Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lexington Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lexington Local School District's financial statements that is more than inconsequential will not be prevented or detected by Lexington Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lexington Local School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

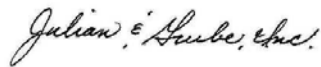
Board of Education
Lexington Local School District

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*.

We noted certain matters that we reported to the management of Lexington Local School District in a separate letter dated December 16, 2008.

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



Julian & Grube, Inc.
December 16, 2008



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

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

Compliance

We have audited the compliance of 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, 2008. 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 Lexington Local School District's management. Our responsibility is to express an opinion on Lexington Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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.

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, 2008.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lexington Local School District's internal control over compliance.

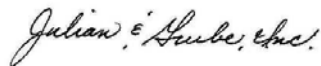
Board of Education
Lexington Local School District

A control deficiency in Lexington Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lexington Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Lexington Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Lexington Local School District's internal control.

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

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



Julian & Grube, Inc.
December 16, 2008

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

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

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

None

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid |
|-----------------------|--|-------------------------|---|
| 2007-LLSD-001 | Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated. | Partially | Citation now located in Management Letter |
| 2007-LLSD-002 | Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by Board resolution and comply with the same provisions of the law as used in making the original appropriations. | Partially | Citation now located in Management Letter |



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
JANUARY 6, 2009**