

Lexington Local School District
Richland County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • 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 Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 7, 2012

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

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November 9, 2012

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County, Ohio (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 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.

Ohio Administrative Code § 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while, material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County, Ohio, as of June 30, 2012, and the respective changes in cash financial position, thereof and the budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Lexington Local School District
Independent Auditor's Report
November 9, 2012

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, governmental activities, and long term debt. The Schedule of Expenditures of Federal Awards (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Rea & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2012, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- The total net cash assets of the District increased \$897,583 or 70.74% from fiscal year 2011.
- General cash receipts accounted for \$21,904,416 or 87.68% of total governmental activities cash receipts. Program specific cash receipts accounted for \$3,078,413 or 12.32% of total governmental activities cash receipts.
- The District had \$24,085,246 in cash disbursements related to governmental activities; \$3,078,413 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$21,904,416 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had cash receipts and other financing sources of \$22,407,820 in 2012. The cash disbursements of the general fund, totaled \$22,117,909 in 2012. The general fund's cash balance increased \$289,911 from a balance of \$614,217 to \$904,128.

Using this Cash Basis Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2012?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

The statement of net assets - cash basis and the statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, the only difference between the net assets and fund cash balances or changes in net assets and changes in fund cash balances results from the consolidation of the internal service fund with governmental activities on the government-wide financial statements. Cash governmental fund statements can be found on pages 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 20-21 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and an agency fund. The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-44 of this report.

Government-Wide Financial Analysis

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

The table below provides a summary of the District's net cash assets at June 30, 2012 and June 30, 2011.

	Net Cash Assets	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 2,166,493	\$ 1,266,985
Cash in segregated accounts	<u>-</u>	<u>1,925</u>
Total assets	<u>2,166,493</u>	<u>1,268,910</u>
<u>Net Cash Assets</u>		
Restricted	118,615	303,230
Unrestricted	<u>2,047,878</u>	<u>965,680</u>
Total net cash assets	<u>\$ 2,166,493</u>	<u>\$ 1,268,910</u>

The total net cash assets of the District increased \$897,583, which represents a 70.74% increase from fiscal year 2011. The change in net cash assets for fiscal year 2012 was an increase of \$897,583 compared to a decrease of \$1,022,785 in fiscal year 2011.

A portion of the District's net cash assets, \$118,615, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net assets of \$2,047,878 may be used to meet the government's ongoing obligations to citizens and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table below shows the changes in net cash assets for fiscal year 2012 and 2011:

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2012</u>	<u>2011</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 1,159,589	\$ 1,124,441
Operating grants and contributions	<u>1,918,824</u>	<u>2,980,925</u>
Total program cash receipts	<u>3,078,413</u>	<u>4,105,366</u>
General cash receipts:		
Property and other taxes	10,424,082	9,281,404
Unrestricted grants and entitlements	9,631,569	9,594,251
Investment earnings	3,033	2,942
Other	145,732	147,999
Note proceeds	<u>1,700,000</u>	<u>-</u>
Total general cash receipts	<u>21,904,416</u>	<u>19,026,596</u>
Total cash receipts	<u>24,982,829</u>	<u>23,131,962</u>

- Continued

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Change in Net Assets (Continued)	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,085,232	\$ 9,766,961
Special	2,344,293	2,525,124
Other	36,533	1,100,499
Support services:		
Pupil	1,150,053	943,805
Instructional staff	1,492,185	1,620,500
Board of education	48,123	18,183
Administration	1,336,568	1,961,218
Fiscal	492,860	493,606
Business	6,883	6,899
Operations and maintenance	1,865,897	1,842,114
Pupil transportation	1,201,374	1,229,060
Central	195,779	359,665
Operation of non instructional services:		
Other non-instructional services	94,066	4,164
Food service operations	914,995	937,623
Extracurricular	930,911	1,112,914
Debt service:		
Principal retirement	1,861,649	220,417
Interest and fiscal charges	<u>27,845</u>	<u>11,995</u>
Total cash disbursements	<u>24,085,246</u>	<u>24,154,747</u>
Change in net cash assets	897,583	(1,022,785)
Net cash assets at beginning of year	<u>1,268,910</u>	<u>2,291,695</u>
Net cash assets at end of year	<u>\$ 2,166,493</u>	<u>\$ 1,268,910</u>

Governmental Activities

Governmental assets increased by \$897,583 in fiscal year 2012 from fiscal year 2011. Total governmental disbursements of \$24,085,246 were offset by program receipts of \$3,078,413 and general receipts of \$21,904,416. Program receipts supported 12.78% of the total governmental disbursements. Administration disbursements decreased during the current fiscal year mainly due to the Treasurer distributing foundation adjustments differently in fiscal year 2012 compared to fiscal year 2011.

General cash receipts increased \$2,877,820 while program specific receipts in the form of operating grants and contributions decreased \$1,026,953 in fiscal year 2012. The increase in general revenues is primarily due to the \$1,700,000 in note proceeds that the District received during the current fiscal year. The decrease in program revenues was due primarily to the reduction in revenues received in related to the education jobs and education stabilization grants.

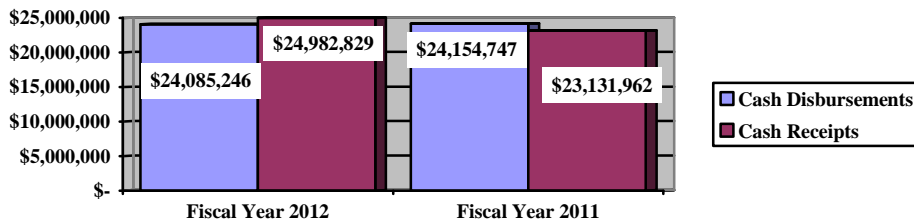
**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These receipt sources represent 80.28% of total governmental receipts. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2011 and 2012.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



As can be seen above, cash receipts were sufficient to cover cash disbursements in fiscal year 2012.

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

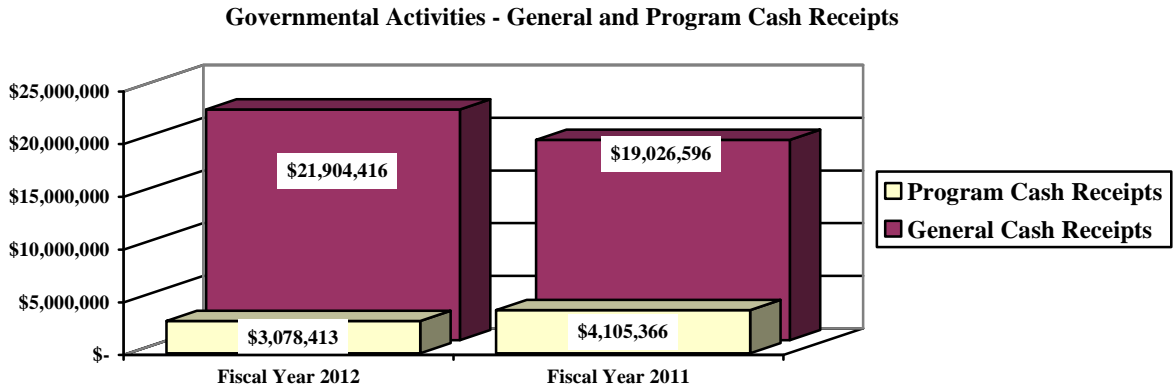
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Cash disbursements:				
Instruction:				
Regular	\$ 10,085,232	\$ 9,779,711	\$ 9,766,961	\$ 9,299,654
Special	2,344,293	1,276,889	2,525,124	1,369,244
Other	36,533	34,886	1,100,499	1,044,447
Support services:				
Pupil	1,150,053	810,907	943,805	538,896
Instructional staff	1,492,185	1,485,018	1,620,500	1,601,338
Board of education	48,123	47,199	18,183	16,205
Administration	1,336,568	1,269,318	1,961,218	1,752,012
Fiscal	492,860	492,860	493,606	493,606
Business	6,883	6,883	6,899	6,899
Operations and maintenance	1,865,897	1,856,091	1,842,114	1,584,971
Pupil transportation	1,201,374	1,149,760	1,229,060	1,127,418
Central	195,779	186,473	359,665	89,037
Operation of non instructional services:				
Other non-instructional services	94,066	94,066	4,164	3,411
Food service operations	914,995	(33,703)	937,623	24,525
Extracurricular	930,911	660,981	1,112,914	865,306
Debt service:				
Principal retirement	1,861,649	1,861,649	220,417	220,417
Interest and fiscal charges	27,845	27,845	11,995	11,995
Total	<u>\$ 24,085,246</u>	<u>\$ 21,006,833</u>	<u>\$ 24,154,747</u>	<u>\$ 20,049,381</u>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The dependence upon general cash receipts for governmental activities is apparent; with 87.22% of cash disbursements supported through taxes and other general cash receipts during 2012.

The graph below presents the District’s governmental activities cash receipts for fiscal years 2012 and 2011.



Financial Analysis of the Government’s Funds

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

Governmental Funds

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

The District’s governmental funds reported a combined fund balance of \$1,022,051, which is a higher balance than last year’s total balance of \$834,568. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and June 30, 2011, for all major and nonmajor governmental funds.

	<u>Fund Balance June 30, 2012</u>	<u>Fund Balance June 30, 2011</u>	<u>Increase (Decrease)</u>
Major fund:			
General	\$ 904,128	\$ 614,217	\$ 289,911
Other nonmajor governmental funds	<u>117,923</u>	<u>220,351</u>	<u>(102,428)</u>
Total	<u>\$ 1,022,051</u>	<u>\$ 834,568</u>	<u>\$ 187,483</u>

General Fund

The general fund, the District’s largest major fund, had cash receipts and other financing sources of \$22,407,820 in 2012. The cash disbursements of the general fund, totaled \$22,117,909 in 2012. The general fund’s fund balance increased \$289,911 from 2011 to 2012. The increase in fund balance can be attributed to an increase in tax revenues. Tax revenues increased due to the passage of a five year emergency operating levy, with collections beginning in March 2012. General fund expenses increased due primarily to an increase in costs related to debt service. During the current fiscal year, the District issued \$1,700,000 in tax anticipation notes and paid them in full.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

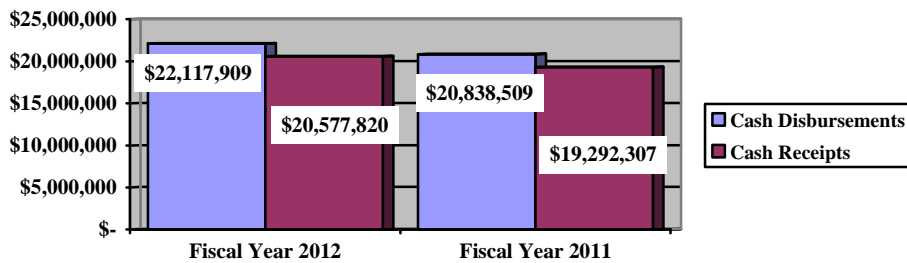
The table that follows assists in illustrating the cash receipts of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 9,850,140	\$ 8,702,983	13.18 %
Tuition	168,732	108,285	55.82 %
Earnings on investments	2,071	2,549	(18.75) %
Other local revenues	306,475	300,651	1.94 %
Intergovernmental - State	<u>10,250,402</u>	<u>10,177,839</u>	0.71 %
Total	<u>\$ 20,577,820</u>	<u>\$ 19,292,307</u>	6.66 %

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

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 12,375,215	\$ 12,800,594	(3.32) %
Support services	7,322,928	7,134,628	2.64 %
Operation of non-instruction	1,013	4,164	(75.67) %
Extracurricular	669,559	862,741	(22.39) %
Debt service	<u>1,749,194</u>	<u>36,382</u>	4,707.86 %
Total	<u>\$ 22,117,909</u>	<u>\$ 20,838,509</u>	6.14 %

General Fund - Total Cash Receipts vs. Total Cash Disbursements



Budgeting Highlights - General Fund

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

During the course of fiscal year 2012, the District amended its general fund budget numerous times. For the general fund, original budgeted receipts and other financing sources were \$20,214,531 and final budgeted receipts were \$22,255,947. The actual receipts and other financing sources were \$22,335,299 for fiscal year 2012, which was \$79,352 more than the final budget receipts. The increase is due primarily to the increase in actual property taxes.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

General fund original appropriations were \$20,784,847 and final appropriations were \$22,176,478. This increase is mainly due to the increase in expected costs related to instruction. The actual budget basis disbursements for fiscal year 2012 totaled \$22,166,728, which was \$9,750 less than the final budget appropriations. The decrease is due primarily to the decrease in actual disbursements related to support services.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The District had the following long-term obligations outstanding at June 30, 2012 and 2011.

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
Capital lease obligation	\$ 79,012	\$ 187,511
Note payable	<u>-</u>	<u>53,150</u>
Total long-term obligations	<u>\$ 79,012</u>	<u>\$ 240,661</u>

Current Financial Related Activities

The Lexington School District’s general fund was in an unstable financial position by the end of fiscal year 2011; however a new 5-year Emergency operating levy was passed by voters in November 2011. Revenues from that levy starting coming in by March 2012. The receipts from that levy, coupled with spending reductions, allowed the District to have a balanced general fund budget for fiscal year 2012.

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

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

Student enrollment has remained fairly steady, with only slight decreases over the years. The District is in primarily a residential community and our schools are widely considered to be among the premier schools in Richland County, routinely earning excellent status on the State Report Card. Lexington’s cost per pupil is among the lowest for area schools and the District takes great pride in the quality of education it provides.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Contacting the District's Financial Management

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

CASH BASIS BASIC
FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,166,493
Total assets	2,166,493
Net cash assets:	
Restricted for:	
Capital projects	2,519
Debt service	1,926
State funded programs.	4,235
Federally funded programs	13,103
Student activities.	41,884
Other purposes.	54,948
Unrestricted	2,047,878
Total net cash assets.	\$ 2,166,493

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Changes Net Cash Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,085,232	\$ 163,748	\$ 141,773	\$ (9,779,711)
Special	2,344,293	83,905	983,499	(1,276,889)
Other	36,533	-	1,647	(34,886)
Support services:				
Pupil	1,150,053	-	339,146	(810,907)
Instructional staff	1,492,185	-	7,167	(1,485,018)
Board of education	48,123	-	924	(47,199)
Administration	1,336,568	41,629	25,621	(1,269,318)
Fiscal	492,860	-	-	(492,860)
Business	6,883	-	-	(6,883)
Operations and maintenance	1,865,897	9,806	-	(1,856,091)
Pupil transportation	1,201,374	-	51,614	(1,149,760)
Central	195,779	-	9,306	(186,473)
Operation of non-instructional services:				
Other non-instructional services	94,066	-	-	(94,066)
Food service operations	914,995	591,748	356,950	33,703
Extracurricular activities	930,911	268,753	1,177	(660,981)
Debt service:				
Principal retirement	1,861,649	-	-	(1,861,649)
Interest and fiscal charges	27,845	-	-	(27,845)
Total governmental activities	<u>\$ 24,085,246</u>	<u>\$ 1,159,589</u>	<u>\$ 1,918,824</u>	<u>(21,006,833)</u>

General cash receipts:

Property taxes levied for:	
General purposes	9,850,140
Capital outlay	573,942
Grants and entitlements not restricted to specific programs	
Investment earnings	3,033
Miscellaneous	145,732
Note proceeds	1,700,000
Total general receipts	<u>21,904,416</u>
Change in net cash assets	897,583
Net cash assets at beginning of year	<u>1,268,910</u>
Net cash assets at end of year	<u>\$ 2,166,493</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 903,436	\$ 117,923	\$ 1,021,359
Restricted assets:			
Equity in pooled cash and cash equivalents	692	-	692
Total assets	\$ 904,128	\$ 117,923	\$ 1,022,051
Fund cash balances:			
Restricted:			
Debt service	\$ -	\$ 1,926	\$ 1,926
Capital improvements	-	2,519	2,519
Food service operations	-	54,256	54,256
Targeted academic assistance	-	12,147	12,147
Extracurricular.	-	41,884	41,884
Other purposes.	-	5,191	5,191
School bus purchases	692	-	692
Assigned:			
Student instruction	33,935	-	33,935
Student and staff support.	97,570	-	97,570
Extracurricular activities.	1,086	-	1,086
Other purposes	21,899	-	21,899
Unassigned	748,946	-	748,946
Total fund cash balances.	\$ 904,128	\$ 117,923	\$ 1,022,051

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO
NET ASSETS - CASH BASIS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund cash balances	\$ 1,022,051
<i>Amounts reported for governmental activities on the statement of net assets-cash basis are different because:</i>	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net assets - cash basis.	<u>1,144,442</u>
Net assets-cash basis of governmental activities	<u><u>\$ 2,166,493</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Cash receipts:			
From local sources:			
Property taxes	\$ 9,850,140	\$ 573,942	\$ 10,424,082
Tuition	168,732	-	168,732
Earnings on investments	2,071	44	2,115
Charges for services	-	591,748	591,748
Extracurricular	42,133	267,477	309,610
Classroom materials and fees	78,417	-	78,417
Rental income	9,806	1,276	11,082
Contributions and donations	12,566	17	12,583
Other local revenues	163,553	2,010	165,563
Intergovernmental - state	10,250,402	134,759	10,385,161
Intergovernmental - federal	-	1,132,774	1,132,774
Total cash receipts	20,577,820	2,704,047	23,281,867
Cash disbursements:			
Current:			
Instruction:			
Regular	10,244,228	207,482	10,451,710
Special	2,096,200	316,636	2,412,836
Other	34,787	1,746	36,533
Support services:			
Pupil	802,039	367,024	1,169,063
Instructional staff	1,562,215	22,107	1,584,322
Board of education	48,123	-	48,123
Administration	1,356,504	29,440	1,385,944
Fiscal	488,398	11,521	499,919
Business	6,883	-	6,883
Operations and maintenance	1,807,307	104,310	1,911,617
Pupil transportation	1,124,230	102,208	1,226,438
Central	127,229	68,550	195,779
Operation of non-instructional services:			
Other non-instructional services	1,013	93,053	94,066
Food service operations	-	945,649	945,649
Extracurricular activities	669,559	266,449	936,008
Debt service:			
Principal retirement	1,734,862	126,787	1,861,649
Interest and fiscal charges	14,332	13,513	27,845
Total cash disbursements	22,117,909	2,676,475	24,794,384
Excess (deficiency) of cash receipts over (under) cash disbursements	(1,540,089)	27,572	(1,512,517)
Other financing sources (uses):			
Note proceeds	1,700,000	-	1,700,000
Advances in	130,000	-	130,000
Advances (out)	-	(130,000)	(130,000)
Total other financing sources (uses)	1,830,000	(130,000)	1,700,000
Net change in fund cash balances	289,911	(102,428)	187,483
Fund cash balances at beginning of year			
	614,217	220,351	834,568
Fund cash balances at end of year	\$ 904,128	\$ 117,923	\$ 1,022,051

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - cash basis - total governmental funds	\$	187,483
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*Amounts reported for governmental activities in the
statement of activities - cash basis are different because:*

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

710,100

Change in net cash assets of governmental activities	\$	897,583
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<u>897,583</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 8,784,706	\$ 9,765,342	\$ 9,850,140	\$ 84,798
Tuition	150,481	167,279	168,732	1,453
Earnings on investments	1,847	2,053	2,071	18
Classroom materials and fees	69,935	77,742	78,417	675
Rental income	8,745	9,722	9,806	84
Other local revenues	227,143	241,651	145,731	(95,920)
Intergovernmental - state	9,141,674	10,162,158	10,250,402	88,244
Total budgetary basis receipts	<u>18,384,531</u>	<u>20,425,947</u>	<u>20,505,299</u>	<u>79,352</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	9,655,472	10,296,620	10,296,144	476
Special	1,972,585	2,103,570	2,102,869	701
Other	32,795	34,973	34,965	8
Support services:				
Pupil	780,513	832,341	832,278	63
Instructional staff	1,482,950	1,581,422	1,579,616	1,806
Board of education	46,570	49,662	48,236	1,426
Administration	1,235,652	1,317,702	1,316,612	1,090
Fiscal	449,471	491,543	490,919	624
Business	6,543	6,977	6,883	94
Operations and maintenance	1,703,714	1,816,845	1,815,621	1,224
Pupil transportation	1,060,465	1,130,883	1,130,328	555
Central	119,379	127,306	127,229	77
Operation of non-instructional services:				
Other non-instructional services	1,032	1,100	1,013	87
Extracurricular activities	632,096	674,069	672,550	1,519
Debt service:				
Principal	1,594,145	1,700,000	1,700,000	-
Interest and fiscal charges	11,465	11,465	11,465	-
Total budgetary basis disbursements	<u>20,784,847</u>	<u>22,176,478</u>	<u>22,166,728</u>	<u>9,750</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>(2,400,316)</u>	<u>(1,750,531)</u>	<u>(1,661,429)</u>	<u>89,102</u>
Other financing sources:				
Advances in	130,000	130,000	130,000	-
Note proceeds	1,700,000	1,700,000	1,700,000	-
Total other financing sources	<u>1,830,000</u>	<u>1,830,000</u>	<u>1,830,000</u>	<u>-</u>
Net change in fund cash balance	(570,316)	79,469	168,571	89,102
Fund cash balance at beginning				
of year	567,413	567,413	567,413	-
Prior year encumbrances appropriated	13,654	13,654	13,654	-
Fund cash balance at end of year	<u>\$ 10,751</u>	<u>\$ 660,536</u>	<u>\$ 749,638</u>	<u>\$ 89,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO**
 STATEMENT OF NET ASSETS - CASH BASIS
 PROPRIETARY FUND
 JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,144,442
Total assets.	<u>1,144,442</u>
Net cash assets:	
Unrestricted.	<u>1,144,442</u>
Total net cash assets.	<u>\$ 1,144,442</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
NET ASSETS - CASH BASIS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Sales/charges for services.	\$ 3,603,965
Total operating cash receipts	<u>3,603,965</u>
Operating cash disbursements:	
Purchased services.	426,417
Materials and supplies	47
Claims.	<u>2,468,363</u>
Total operating cash disbursements	<u>2,894,827</u>
Operating income.	<u>709,138</u>
Nonoperating cash receipts:	
Interest receipts	<u>962</u>
Total nonoperating cash receipts.	<u>962</u>
Change in net cash assets.	710,100
Net cash assets at beginning of year	<u>434,342</u>
Net cash assets at end of year.	<u>\$ 1,144,442</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 12,261	\$ 72,090
Total assets.	<u>12,261</u>	<u>72,090</u>
Net cash assets:		
Held in trust for scholarships	12,261	-
Held for student activities	-	72,090
Total net cash assets	<u>\$ 12,261</u>	<u>\$ 72,090</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 12
Gifts and contributions	970
Total additions	982
 Deductions:	
Scholarships awarded	925
Change in net cash assets	57
Net cash assets at beginning of year	12,204
Net cash assets at end of year	\$ 12,261

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, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 5 instructional facilities. The District employs 111 non-certified and 150 certified employees to provide services to approximately 2,578 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL

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

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

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

B. Basis of Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash assets and changes in net cash 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's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency fund accounts for student activity.

D. Basis of Presentation and Measurement Focus

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2012 is as follows:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2012.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2012.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

Under existing Ohio statutes all investment earning 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 2012 amounted to \$2,071, which includes \$1,177 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

At June 30, 2012, the District had no investments. All cash was maintained in demand deposit accounts. See Note 4 for more detail.

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

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

J. Fund Cash Balance

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

L. Net Cash Assets

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

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

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by State statute. Restricted assets represent monies received from the State of Ohio that are restricted for school bus purchases. The District had \$692 in restricted cash assets at June 30, 2012. See Note 15 for detail.

N. Interfund Activity

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

O. Parochial Schools

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

P. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made for future general fund shortfall. At June 30, 2012, the balance in the budget stabilization reserve was \$87,929. This amount is included in unassigned fund balance of the general fund and in unrestricted net assets on the statement of net assets.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Compliance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$2,250,744. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$2,180,537 of the District's bank balance of \$2,439,373 was exposed to custodial risk as discussed below, while \$258,836 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Deposits and Cash on Hand to the Statement of Net Assets

The following is a reconciliation of deposits and cash on hand as reported in the note above to cash as reported on the statement of net assets as of June 30, 2012:

<u>Deposits and cash on hand</u>	
Carrying amount of deposits	\$ 2,250,744
Cash on hand	<u>100</u>
Total	<u>\$ 2,250,844</u>
 <u>Cash per statement of net assets</u>	
Governmental funds	\$ 2,166,493
Private-purpose trust fund	12,261
Agency fund	<u>72,090</u>
Total	<u>\$ 2,250,844</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund advances for the year ended June 30, 2012, consisted of the following, as reported on the fund statements:

Advances to the general fund from:

Nonmajor governmental funds	<u>\$ 130,000</u>
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The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. These interfund advances were made to repay advances made in the prior fiscal year from the general fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland and Morrow Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 349,880,140	97.99	\$ 333,223,990	97.80
Public utility personal	<u>7,169,080</u>	<u>2.01</u>	<u>7,496,110</u>	<u>2.20</u>
Total	<u>\$ 357,049,220</u>	<u>100.00</u>	<u>\$ 340,720,100</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$29.41		\$47.30	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior 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 codification, 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 disbursements in the financial statements for the governmental funds.

Capital lease payments have been reflected as debt service disbursements in the general fund, the food service fund (a nonmajor governmental fund), the district-managed activity fund (a nonmajor governmental fund) and the permanent improvement fund (a nonmajor governmental fund). Principal payments in fiscal year 2012 totaled \$108,499.

The following is a schedule of the future long-term minimum lease payments required under the capital lease agreement and the present value of the future minimum lease payments as of June 30, 2012:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2013	\$ <u>85,357</u>
Total	85,357
Less: amount representing interest	<u>(6,345)</u>
Total	<u>\$ 79,012</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2012, the following changes occurred in governmental activities long-term obligations.

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Capital lease obligation	\$ 187,511	\$ -	\$ (108,499)	\$ 79,012	\$ 79,012
Note payable	<u>53,150</u>	<u>-</u>	<u>(53,150)</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 240,661</u>	<u>\$ -</u>	<u>\$ (161,649)</u>	<u>\$ 79,012</u>	<u>\$ 79,012</u>

B. Note Payable

In a prior fiscal year, the District issued notes in the amount of \$300,000. The notes were issued for the purpose of acquiring bleachers. The notes were issued at 4.9% for three years with semi-annual payments due in April and October. The note payments are being paid from the permanent improvement fund (a nonmajor governmental fund).

The note was paid in full during the current fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The 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, 2012, are a voted debt margin of \$30,666,735 and an unvoted debt margin of \$340,720.

NOTE 9 - SHORT-TERM NOTES PAYABLE

A summary of the governmental activities short-term notes payable transactions for fiscal year 2012 follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Balance June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2012</u>
Tax Anticipation Note	1/29/12	6/29/12	2.90	\$ -	\$ 1,700,000	\$ (1,700,000)	\$ -
Total				<u>\$ -</u>	<u>\$ 1,700,000</u>	<u>\$ (1,700,000)</u>	<u>\$ -</u>

On January 29, 2012, the District issued \$1,700,000 in notes in anticipation of taxes receipts. The notes bear an interest rate of 2.9% and matured on June 29, 2012.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for forty percent of the total sick leave accumulation, up to a maximum accumulation of 250 days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by State Teachers Retirement System of Ohio and School Employees Retirement System.

B. Life Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

The District had the following coverages in effect for fiscal year 2012:

<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	56,877,546	1,000

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

B. Health Benefits

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

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

C. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants of the GRP are placed in tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. 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, 2012

NOTE 12 - 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, disability, survivor 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 "Employers/Audit Resources".

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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$386,140, \$379,852 and \$392,688, respectively; 64.03 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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 website at www.strsoh.org, under "Publications".

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, 2012

NOTE 12 - PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 2012, 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, 2012, 2011 and 2010 were \$1,192,381, \$1,370,696 and \$1,394,681, respectively; 83.82 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required 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 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$61,696, \$93,977 and \$78,510, respectively; 64.03 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$22,804, \$24,444 and \$23,352, respectively; 64.03 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, 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, 2012, 2011 and 2010 were \$91,722, \$105,438 and \$107,283, respectively; 83.82 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - CONTINGENCIES

A. Student Attendance Data

The Auditor of State is currently performing a State wide review of supporting documentation for student attendance data reported to the Ohio Department of Education (ODE). The results of this review are still pending and will be reported separately by the ODE at a later date.

B. 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.

C. Litigation

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

NOTE 15 - STATUTORY RESERVES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - STATUTORY RESERVES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	450,362
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(450,362)
Excess qualified expenditures from prior years	-
Current year offsets	-
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

In addition to the above statutory set-aside, the District also has \$692 in monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2012 follows:

Amount restricted for school bus purchases	<u>\$ 692</u>
--	---------------

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General fund</u>
Cash basis	\$ 289,911
Funds budgeted elsewhere **	(16,155)
Adjustment for encumbrances	<u>(105,185)</u>
Budget basis	<u>\$ 168,571</u>

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

NOTE 17 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 106,346
Other governmental	<u>10,795</u>
Total	<u>\$ 117,141</u>

November 9, 2012

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District, Richland County, Ohio (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 9, 2012, wherein we noted the District uses a comprehensive basis of accounting not in accordance with generally accepted accounting principles. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Lexington Local School District
Independent Auditor's Report On Internal Control Over Financial
Reporting And On Compliance And Other Matters Based On
An Audit of Financial Statements Performed In Accordance With
Government Auditing Standards
Page 2 of 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and question costs as item 2012-01.

We noted certain matters that we reported to management of the District in a separate letter dated November 9, 2012.

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

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

Hea & Associates, Inc.

November 9, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Lexington Local School District, Richland County, Ohio (the "District"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

Lexington Local School District
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133

Page 2 of 2

In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, 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 the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 solely for the information and use of the Board of Education, management, 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.

Rea & Associates, Inc.

LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
U. S. Department of Education (Passed Through Ohio Department of Education):				
Title I	84.010	2011	\$ 22,053	\$ 38,128
Title I	84.010	2012	212,910	210,958
Total Title I			<u>234,963</u>	<u>249,086</u>
IDEA-B	84.027	2011	0	24,604
IDEA-B	84.027	2012	399,901	399,901
Total IDEA-B			<u>399,901</u>	<u>424,505</u>
Safe and Drug-Free Schools and Communities	84.186	2011	0	1,422
Total Safe and Drug-Free Schools and Communities			<u>0</u>	<u>1,422</u>
Education Jobs Fund	84.410	2012	69,695	109,695
Total Education Jobs Fund			<u>69,695</u>	<u>109,695</u>
Title II-D	84.318	2012	1,780	1,780
Total Title II-D			<u>1,780</u>	<u>1,780</u>
Title II-A	84.367	2011	3,133	2,297
Title II-A	84.367	2012	40,722	35,902
Total Title II-A			<u>43,855</u>	<u>38,199</u>
Race to the Top- ARRA	84.395	2011	0	1,863
Race to the Top- ARRA	84.395	2012	34,309	33,719
Total Race to the Top			<u>34,309</u>	<u>35,582</u>
Total U.S. Department of Education			<u>784,503</u>	<u>860,269</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):				
<i>Nutrition Cluster</i>				
Cash Assistance:				
School Breakfast Program	(A) 10.553	2012	27,327	27,327
Total School Breakfast Program			<u>27,327</u>	<u>27,327</u>
Non-Cash Assistance:				
National School Lunch Program	(B) 10.555	2012	63,869	63,869
Cash Assistance:				
National School Lunch Program	(A) 10.555	2012	320,944	320,944
Total National School Lunch Program			<u>384,813</u>	<u>384,813</u>
<i>Total Nutrition Cluster</i>			<u>412,140</u>	<u>412,140</u>
Total U.S. Department of Agriculture			<u>412,140</u>	<u>412,140</u>
Total Federal Assistance			<u>\$ 1,196,643</u>	<u>\$ 1,272,409</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**Lexington Local School District
Richland County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2012*

Note A – National School Lunch Program

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note B – Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfers:

CFDA		Program			
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>		<u>Transfers In</u>
84.010	Title I - Grants to Local Educational Agencies	2011	\$ 5,375		
84.010	Title I - Grants to Local Educational Agencies	2012		\$ 5,375	
84.395	Race to the Top - ARRA	2011	366		
84.395	Race to the Top - ARRA	2012			366

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I IDEA-B	CFDA: 84.010 84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2012**

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

Finding Number:	2012-01
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Criteria: Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

Condition: The District chose to prepare its financial statements and notes on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP.

Cause: The Lexington Local School District Board of Education elected , per resolution 32-10, to discontinue preparing its financial statements in accordance with GAAP. It was determined that the decision on whether or not to comply will be revisited annually and reviewed in conjunction with recommendation of the Treasurer.

Potential Effect: The financial statements and notes omit assets, liabilities, fund equities, and disclosures that are material, however, cannot be determined at this time.

Recommendation: It is recommended that the District prepare its annual financial report in accordance with GAAP to comply with Ohio Admin. Code Section 117-2-03(B).

District's Response: The Lexington Local Board of Education recognizes the value in preparing accurate and timely financial statements to reflect the District's operations as of fiscal year end. Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash basis of accounting will accurately reflect the district's financial position and allow for those resources previously spent on GAAP to be allocated to education purposes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**Lexington Local School District
Richland County**

*Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis of accounting. Reported as finding 2012-01.
2011-02	Expenditures were included for non-payroll and payroll disbursements of school buildings that were not selected to receive targeted assistance of the Title I program.	Yes	



Dave Yost • Auditor of State

LEXINGTON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2012