

NEW LEXINGTON CITY SCHOOL DISTRICT

PERRY COUNTY

SINGLE AUDIT

JULY 1, 2005 - JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
New Lexington City School District
101 Third Avenue
New Lexington, Ohio 43764

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 18, 2007

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**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY

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Board of Education
New Lexington City School District
101 Third Avenue
New Lexington, Ohio 43764

INDEPENDENT AUDITORS' REPORT

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

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

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

As disclosed in Note 2.S, the School District implemented GASB Statement No. 42, 46, and 47. The implementation of these statements had no impact on the School District's financial position.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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Newark, Ohio 43055
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New Lexington City School District
Perry County
Independent Auditors' Report

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

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
November 22, 2006

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

Financial Highlights

Key financial highlights for 2006 include:

- General revenues accounted for \$12,622,733 in revenue or 73.1 percent of all revenues. Program specific revenues in the form of charges for services and sales, along with operating and capital grants and contributions accounted for \$4,639,825 or 26.9 percent of total revenues of \$17,262,558.
- Total program expenses were \$18,596,886.
- In total, net assets decreased \$1,334,328 which represents a 4 percent decrease from 2005.
- Outstanding bonded debt decreased from \$3,155,000 to \$3,040,000 through the payment of bond principal.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the School District's finances is, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Proprietary Funds - The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

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

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

(Table 1)
Net Assets – Governmental Activities

	2006	2005
Assets		
Current and Other Assets	\$ 12,199,580	\$ 11,065,030
Capital Assets	28,971,920	30,352,808
Total Assets	41,171,500	41,417,838
Liabilities		
Long-Term Liabilities	4,210,349	4,441,354
Other Liabilities	5,179,245	3,860,250
Total Liabilities	9,389,594	8,301,604
Net Assets		
Invested in Capital Assets, Net of Debt	25,780,612	27,004,609
Restricted	2,027,572	1,914,790
Unrestricted	3,973,722	4,196,835
Total Net Assets	\$ 31,781,906	\$ 33,116,234

Total assets decreased by \$246,338. Cash increased by \$1,075,419 from the prior year, comprising the largest portion of the current assets increase. Capital assets decreased by \$1,380,888 due to current year depreciation expense exceeding additional purchases. Total liabilities increased by \$1,087,990. The majority of this is due to a \$854,836 increase of unearned revenue, which was related to the amount of property taxes receivable at fiscal year-end.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets - Governmental Activities

	2006	2005
Revenues		
<i>Program Revenues</i>		
Charges for Services and Sales	\$ 396,254	\$ 364,649
Operating Grants and Contributions	4,210,578	4,104,339
Capital Grants and Contributions	32,993	25,985
<i>Total Program Revenues</i>	4,639,825	4,494,973
<i>General Revenues</i>		
Property Taxes	2,247,585	3,400,887
Grants and Entitlements	10,007,047	9,385,030
Other	368,101	275,121
<i>Total General Revenues</i>	12,622,733	13,061,038
<i>Special Item</i>	-	77,105
<i>Total Revenues</i>	17,262,558	17,633,116
Program Expenses		
Instruction	10,207,387	8,919,707
Support Services:		
Pupils and Instructional Staff	1,261,961	1,082,657
Board of Education, Administration, Fiscal and Business	1,864,852	1,732,032
Operation and Maintenance of Plant	2,126,379	1,734,129
Pupil Transportation	1,298,319	1,121,515
Central	346,136	324,187
Operation of Non-Instructional Services:		
Food Service Operations	843,002	776,973
Community Services	99,651	99,121
Extracurricular Activities	366,727	366,496
Interest and Fiscal Charges	182,472	198,431
<i>Total Expenses</i>	18,596,886	16,355,248
Increase in Net Assets	(1,334,328)	1,277,868
Net Assets Beginning of Year	33,116,234	31,838,366
Net Assets End of Year	\$ 31,781,906	\$ 33,116,234

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases. Property taxes made up 17.8 percent of general revenues for governmental activities for the School District in fiscal year 2006. Nonspecific State support, however, is the primary support for the School District at 79.3 percent of general revenues. Although the School District relies heavily upon these two sources to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 54.9 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 16.8 percent. The remaining 28.3 percent of program expenses is used for other obligations of the School District such as operation maintenance of plant, pupil transportation, and non-instructional services, extracurricular activities, and interest and fiscal charges.

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

(Table 3)
Governmental Activities

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Instruction	\$ 10,207,387	\$ 8,919,707	\$ 7,130,478	\$ 5,552,156
Support Services:				
Pupil and Instructional Staff	1,261,961	1,082,657	902,911	1,061,655
Board of Education, Administration, Fiscal, and Business	1,864,852	1,732,032	1,677,635	1,610,697
Operation and Maintenance of Plant	2,126,379	1,734,129	2,120,321	1,728,168
Pupil Transportation	1,298,319	1,121,515	1,284,910	1,095,530
Central	346,136	324,187	330,211	308,047
Operation of Non-Instructional Services:				
Food Service Operations	843,002	776,973	20,328	(60,372)
Community Services	99,651	99,121	5,678	99,121
Extracurricular Activities	366,727	366,496	302,117	266,842
Interest and Fiscal Charges	182,472	198,431	182,472	198,431
Total Expenses	\$ 18,596,886	\$ 16,355,248	\$ 13,957,061	\$ 11,860,275

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The dependence on nonspecific State support for governmental activities is apparent. 53.8 percent of expenses are directly supported by nonspecific State support. Program revenues only account for 24.9 percent of all governmental expenses. Program revenues include charges for services and sales, grants and contributions that are program specific.

The School District's Funds

Information about the School District's governmental funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,241,797 and expenditures of \$17,435,404. The net change in fund balance for the fiscal year was \$(193,607). Changes in the general fund, the only major fund are described below.

General Fund

The general fund is the only major fund for fiscal year 2006 and had total revenues of \$13,194,678, a decrease of \$894,638 from the previous year. The general fund also had total expenditures of \$13,455,742, an increase of \$1,323,095. Overall, the net change in fund balance was a decrease of \$261,064.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities for operations and maintenance of buildings. For the general fund, the final budget basis revenue was \$13,360,095 this amount was \$80,001 lower than the original budget revenue which was 13,440,096. The final appropriations were \$14,281,900, which was \$550,223 higher than the original budget of \$13,731,677. Most of this difference was due to an underestimation of instruction expenses. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$4,797,256.

The School District uses a site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbooks, instructional materials and equipment.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$28,971,920 invested in land, buildings and building improvements, improvements other than buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared with 2005. More detailed information is presented in Note 8 of the notes to the basic financial statements.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

	2006	2005
Land	\$ 218,360	\$ 218,360
Buildings and Building Improvements	26,325,142	27,158,331
Improvements Other than Buildings	502,023	547,583
Furniture and Equipment	1,433,250	1,825,650
Vehicles	493,145	602,884
Totals	\$ 28,971,920	\$ 30,352,808

The \$1,380,888 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

Debt

At June 30, 2006, the School District had \$3,040,000 in bonds outstanding with \$120,000 due within one year. During fiscal year 2006, \$115,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt at June 30
Governmental Activities

	2006	2005
General Obligation Bonds	\$ 3,040,000	\$ 3,155,000

In 1998, the School District passed a bond issue providing \$3,560,000 for the construction of a new High School and the refurbishing of the former High School (now known as the Middle School) and the former Middle School (now known as the Elementary School). The Junction City Elementary School was also completely renovated and still remains an Elementary School. A more detailed presentation is included in Note 13 of the notes to the basic financial statements.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Economic Factors

The New Lexington City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy, a 3 mill renewal, passed by the residents of the School District was in February, 2003.

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

Property tax revenue makes up only 13.0 percent of revenues for governmental activities for the School District in fiscal year 2006. Unlike many other school districts, the School District is not dependent upon revenues generated from property taxes.

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

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The School District's current five-year forecast projects deficit spending at the end of fiscal years 2008, 2009, and 2010 with positive cash balances of \$5,177,128, \$4,483,383 and \$3,514,696 for the respective fiscal years.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dan Stanton, Treasurer of New Lexington City School District, 101 Third Avenue, New Lexington, OH 43764 or dans@seovec.org.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,752,667
Restricted Cash and Cash Equivalents	298,268
Receivables:	
Taxes	4,142,239
Accounts	15,728
Accrued Interest	3,742
Intergovernmental	942,434
Prepaid Items	29,780
Inventory Held for Resale	10,192
Materials and Supplies Inventory	4,530
Nondepreciable Capital Assets	218,360
Depreciable Capital Assets (Net)	<u>28,753,560</u>
 <i>Total Assets</i>	 <u>41,171,500</u>
 Liabilities	
Accounts Payable	216,873
Accrued Wages and Benefits	1,436,787
Accrued Interest Payable	13,924
Intergovernmental Payable	406,601
Unearned Revenue	2,775,229
Matured Compensated Absences Payable	108,342
Claims Payable	221,489
Long-Term Liabilities:	
Due Within One Year	250,307
Due in More Than One Year	<u>3,960,042</u>
 <i>Total Liabilities</i>	 <u>9,389,594</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	25,780,612
Restricted for:	
Capital Projects	3,711
Debt Service	533,800
Set Asides	258,874
Other Purposes	1,231,187
Unrestricted	<u>3,973,722</u>
 <i>Total Net Assets</i>	 <u>\$ 31,781,906</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 7,242,906	\$ 31,158	\$ 1,479,103	\$ 19,584	\$ (5,713,061)
Special	2,305,634	22,344	1,343,020	-	(940,270)
Vocational	645,642	-	177,349	-	(468,293)
Other	13,205	4,351	-	-	(8,854)
Support Services:					
Pupils	775,990	-	250,010	-	(525,980)
Instructional Staff	485,971	-	109,040	-	(376,931)
Board of Education	112,372	-	-	-	(112,372)
Administration	1,330,225	-	187,217	-	(1,143,008)
Fiscal	365,519	-	-	-	(365,519)
Business	56,736	-	-	-	(56,736)
Operation and Maintenance of Plant	2,126,379	-	6,058	-	(2,120,321)
Pupil Transportation	1,298,319	-	-	13,409	(1,284,910)
Central	346,136	-	15,925	-	(330,211)
Operation of Non-Instructional Services:					
Food Service Operations	843,002	273,791	548,883	-	(20,328)
Community Services	99,651	-	93,973	-	(5,678)
Extracurricular Activities	366,727	64,610	-	-	(302,117)
Interest and Fiscal Charges	182,472	-	-	-	(182,472)
Totals	\$ 18,596,886	\$ 396,254	\$ 4,210,578	\$ 32,993	(13,957,061)
General Revenues					
Property Taxes Levied for:					
General Purposes					1,856,886
Debt Service					333,254
Other Purposes					57,445
Grants and Entitlements not Restricted to Specific Programs					10,007,047
Investment Earnings					165,615
Miscellaneous					202,486
<i>Total General Revenues</i>					<u>12,622,733</u>
<i>Change in Net Assets</i>					(1,334,328)
<i>Net Assets Beginning of Year</i>					<u>33,116,234</u>
<i>Net Assets End of Year</i>					<u>\$ 31,781,906</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2006*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 5,053,261	\$ 1,173,796	\$ 6,227,057
Restricted Cash and Cash Equivalents	298,268	-	298,268
Receivables:			
Taxes	3,624,447	517,792	4,142,239
Accounts	15,728	-	15,728
Accrued Interest	3,742	-	3,742
Intergovernmental	1,393	941,041	942,434
Prepaid Items	29,780	-	29,780
Inventory Held For Resale	-	10,192	10,192
Materials and Supplies Inventory	-	4,530	4,530
<i>Total Assets</i>	<u>\$ 9,026,619</u>	<u>\$ 2,647,351</u>	<u>\$ 11,673,970</u>
Liabilities			
Accounts Payable	\$ 103,572	\$ 113,301	\$ 216,873
Accrued Wages and Benefits	1,160,787	276,000	1,436,787
Intergovernmental Payable	371,627	34,974	406,601
Deferred Revenue	3,256,155	1,009,830	4,265,985
Matured Compensated Absences Payable	108,342	-	108,342
<i>Total Liabilities</i>	<u>5,000,483</u>	<u>1,434,105</u>	<u>6,434,588</u>
Fund Balances			
Reserved for Encumbrances	450,702	87,926	538,628
Reserved for Prepaids	29,780	-	29,780
Reserved for Property Taxes	368,292	62,479	430,771
Reserved for Textbooks	258,874	-	258,874
Reserved for Bus Purchase	39,394	-	39,394
Unreserved, Designated:			
Designated for Budget Stabilization	463,000	-	463,000
Unreserved, Undesignated, Reported in:			
General Fund	2,416,094	-	2,416,094
Special Revenue Funds	-	682,062	682,062
Debt Service Fund	-	374,500	374,500
Capital Projects Funds	-	6,279	6,279
<i>Total Fund Balances</i>	<u>4,026,136</u>	<u>1,213,246</u>	<u>5,239,382</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 9,026,619</u>	<u>\$ 2,647,351</u>	<u>\$ 11,673,970</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances \$ 5,239,382

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 28,971,920

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Grants	\$ 554,517
Delinquent Property Taxes	<u>936,239</u>

Total	<u>1,490,756</u>
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An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 304,121

In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due. (13,924)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(3,040,000)
Compensated Absences Payable	(1,019,041)
Capital Leases	<u>(151,308)</u>

Total	<u><u>(4,210,349)</u></u>
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Net Assets of Governmental Activities \$ 31,781,906

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,914,516	\$ 360,961	\$ 2,275,477
Intergovernmental	10,944,199	3,257,766	14,201,965
Investment Income	162,632	2,983	165,615
Tuition and Fees	52,942	4,351	57,293
Extracurricular Activities	-	64,610	64,610
Rentals	560	-	560
Charges for Services	-	273,791	273,791
Miscellaneous	119,829	82,657	202,486
<i>Total Revenues</i>	<u>13,194,678</u>	<u>4,047,119</u>	<u>17,241,797</u>
Expenditures			
Current:			
Instruction:			
Regular	5,248,064	1,449,048	6,697,112
Special	1,688,434	560,352	2,248,786
Vocational	643,882	-	643,882
Other	7,542	5,663	13,205
Support Services:			
Pupils	598,096	177,998	776,094
Instructional Staff	256,771	194,230	451,001
Board of Education	98,149	-	98,149
Administration	1,212,906	155,873	1,368,779
Fiscal	354,059	19,290	373,349
Business	9,664	47,072	56,736
Operation and Maintenance of Plant	1,819,143	50,917	1,870,060
Pupil Transportation	927,860	11,511	939,371
Central	270,658	17,088	287,746
Operation of Non-Instructional Services:			
Food Service Operations	-	823,571	823,571
Community Services	23	98,087	98,110
Extracurricular Activities	265,371	84,288	349,659
Debt Service:			
Principal Retirement	41,891	115,000	156,891
Interest and Fiscal Charges	13,229	169,674	182,903
<i>Total Expenditures</i>	<u>13,455,742</u>	<u>3,979,662</u>	<u>17,435,404</u>
<i>Net Change in Fund Balances</i>	(261,064)	67,457	(193,607)
<i>Fund Balances Beginning of Year</i>	<u>4,287,200</u>	<u>1,145,789</u>	<u>5,432,989</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,026,136</u>	<u>\$ 1,213,246</u>	<u>\$ 5,239,382</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (193,607)

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

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

Capital Asset Additions	\$ 41,422	
Current Year Depreciation	<u>(1,422,310)</u>	
Total		(1,380,888)

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

Grants	48,653	
Delinquent Property Taxes	<u>(27,892)</u>	
Total		20,761

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

Bond Principal	115,000	
Capital Leases	<u>41,891</u>	
Total		156,891

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. 431

Compensated absences are reported in the statement of activities do not require the use the current financial resources and therefore are not reported as expenditures in governmental funds. 74,114

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (12,030)

Change in Net Assets of Governmental Activities \$ (1,334,328)

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
 General Fund
 For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,530,000	\$ 2,270,000	\$ 2,608,534	\$ 338,534
Intergovernmental	10,644,866	10,937,477	10,942,806	5,329
Investment Income	156,813	78,018	161,202	83,184
Tuition and Fees	42,416	31,400	43,603	12,203
Rentals	545	400	560	160
Miscellaneous	65,456	42,800	67,288	24,488
<i>Total Revenues</i>	<u>13,440,096</u>	<u>13,360,095</u>	<u>13,823,993</u>	<u>463,898</u>
Expenditures				
Current:				
Instruction:				
Regular	5,783,731	5,518,333	5,232,074	286,259
Special	1,649,652	1,679,989	1,660,722	19,267
Vocational	530,521	637,086	626,198	10,888
Other	9,671	11,681	7,498	4,183
Support Services:				
Pupils	543,079	587,496	564,862	22,634
Instructional Staff	312,036	347,519	289,863	57,656
Board of Education	91,318	104,998	98,158	6,840
Administration	1,268,905	1,314,486	1,268,853	45,633
Fiscal	321,189	339,499	335,237	4,262
Business	24,013	29,134	26,196	2,938
Operation and Maintenance of Plant	1,788,343	2,181,749	2,116,862	64,887
Pupil Transportation	876,717	958,373	943,645	14,728
Central	262,798	278,255	274,054	4,201
Operation of Non-Instructional Services:				
Food Service Operations	-	15,100	15,023	77
Community Services	-	25	23	2
Extracurricular Activities	269,704	278,177	266,410	11,767
<i>Total Expenditures</i>	<u>13,731,677</u>	<u>14,281,900</u>	<u>13,725,678</u>	<u>556,222</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(291,581)	(921,805)	98,315	1,020,120
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	-	40,000	51,473	11,473
Refund of Prior Year Receipts	-	(805)	(805)	-
Advances In	-	40,000	40,000	-
Advances Out	-	(40,000)	(40,000)	-
Transfers In	-	-	186,000	186,000
Transfers Out	(177,108)	(186,000)	(186,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(177,108)</u>	<u>(146,805)</u>	<u>50,668</u>	<u>197,473</u>
<i>Net Change in Fund Balance</i>	(468,689)	(1,068,610)	148,983	1,217,593
<i>Fund Balance Beginning of Year</i>	3,973,664	3,973,664	3,973,664	-
Prior Year Encumbrances Appropriated	674,609	674,609	674,609	-
<i>Fund Balance End of Year</i>	<u>\$ 4,179,584</u>	<u>\$ 3,579,663</u>	<u>\$ 4,797,256</u>	<u>\$ 1,217,593</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Fund Net Assets

Internal Service Fund

June 30, 2006

	Governmental Activities - Internal Service
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 525,610
Liabilities	
Claims Payable	221,489
Net Assets	
Unrestricted	\$ 304,121

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expense, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service</u>
Operating Revenues	
Charges for Services	<u>\$ 1,911,758</u>
Operating Expenses	
Purchased services	207,342
Claims	1,712,255
Other	<u>4,191</u>
<i>Total Operating Expenses</i>	<u>1,923,788</u>
<i>Change in Net Assets</i>	(12,030)
<i>Net Assets Beginning of Year</i>	<u>316,151</u>
<i>Net Assets End of Year</i>	<u><u>\$ 304,121</u></u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 1,911,758
Cash Paid for Claims	(1,698,589)
Other Cash Payments	(211,533)
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	1,636
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	1,636
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	523,974
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$ 525,610
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities	
<i>Operating Loss</i>	\$ (12,030)
Adjustment:	
Increase in Claims Payable	13,666
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	\$ 1,636
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 68,063
Accounts Receivable	511
	<hr/>
<i>Total Assets</i>	<u>\$ 68,574</u>
Liabilities	
Accounts Payable	\$ 6,895
Due to Students	61,679
	<hr/>
<i>Total Liabilities</i>	<u>\$ 68,574</u>

See accompanying notes to the basic financial statements.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

The School District operates under a locally-elected five member board form of government and provides educational services as mandated by State statute and Federal agencies. The Board of Education controls the School District's five instructional/support facilities staffed by 81 classified employees and 149 certified teaching personnel who provide services to 1,982 students and other community members.

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

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

The School District participates in the Southeast Ohio Voluntary Educational Consortium, the Tri-County Joint Vocational School District, the Coalition of Rural and Appalachian Schools, and the Southeastern Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. These organizations are presented in Notes 16 and 17.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Proprietary Funds - Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

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

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

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

Unearned revenues on the governmental financial statements are receivables which will not be collected within the available period.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to certificates of deposit and a cash management account.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$162,632, which includes \$39,410 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are reported as cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved in the fund financial statements by an amount equal to the carrying value of the asset.

G. Inventory

Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale. Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by statute to be set aside for the purchase of textbooks. See Note 19 for additional information regarding set-asides.

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-20 Years
Buildings and Improvements	20-40 Years
Furniture and Equipment	5-20 Years
Vehicles	8 Years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the School District has identified as probable of receiving payment in the future (employees with ten or more years of service). The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the School District's termination policies.

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee will be paid.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Fund Balance Reserves and Designations

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute. The reserves for textbooks represent monies required to be set-aside by statute for the purchase of textbooks.

The Board approved a designation of fund balance of \$463,000 for budget stabilization. These funds may be necessary to cover deficits in future years.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. 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 2006.

Q. Estimates

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

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

S. Changes in Accounting Principles

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Statement No. 47, *Accounting for Termination Benefits*.

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitations as to the period of time during which the benefits are offered.

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

NOTE 3 – ACCOUNTABILITY

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

	<u>Deficit</u>
Nonmajor Special Revenue Fund:	
Management Information System	\$ (24)

The deficit fund balance resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in this fund and provides operating transfers when cash is required, rather than when accruals occur.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	General
GAAP Basis	\$ (261,064)
Net adjustment for revenue accruals	906,788
Net adjustment for expenditure accruals	57,533
Adjustment for encumbrances	(554,274)
Budget Basis	\$ 148,983

NOTE 5 - DEPOSITS AND INVESTMENTS

State statues classify monies held by the School District into three categories.

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

Inactive deposits are public deposits 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 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.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2006, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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 collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$768,998. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$1,144,153 of the School District's bank balance of \$1,244,153 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
Cash Management Account	\$ 6,350,000	\$ 6,350,000

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

Credit Risk. The Cash Management Account is a high yield savings account and is unrated.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

Investment Type	Fair Value	Percent of Total
Cash Management Account	\$ 6,350,000	100.00%

Reconciliation of Cash and its Investment to the Statement of Net Assets

The following is a reconciliation of cash and its investment to the Statement of Net Assets at June 30, 2006:

Investment (summarized above)	\$	6,350,000
Carrying amount of the School District's deposits		768,998
Cash and cash equivalents – Statement of Fiduciary Assets and Liabilities		(68,063)
Cash and cash equivalents – governmental activities	\$	7,050,935

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid 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 revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2003, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 6 - PROPERTY TAXES (Continued)

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

The School District receives property taxes from Perry County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2006, was \$368,292 in the general fund, \$54,586 in the bond retirement debt service fund and \$7,893 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2005, was \$1,062,310 in the general fund, \$119,361 in the bond retirement debt service fund and \$11,936 in the classroom facilities maintenance special revenue fund.

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

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

	2005 Second-Half		2006 First-Half	
	Collections		Collections	
	Amount	Percent	Amount	Percent
Real Property	\$ 94,236,350	80%	\$ 112,399,730	85%
Public Utility Tangible				
Personal Property	7,308,040	6%	7,042,820	5%
Tangible Personal Property	16,295,780	14%	13,199,738	10%
Total Assessed Value	\$ 117,840,170	100%	\$ 132,642,288	100%
 Tax rate per \$1,000 of assessed value	 \$ 32.67		 \$ 35.97	

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of property taxes, accounts (billings for user charged services, and student fees), interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Nonmajor Funds:	
Title I	\$480,855
Eisenhower Grant	176,634
Title VI-B - Special Education	141,805
School to Work	81,006
Food Service	58,391
Title V – Innovative Program	<u>2,350</u>
 Total All Funds	 <u>\$941,041</u>

NOTE 8 – CAPITAL ASSETS

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

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 218,360	\$ -	\$ -	\$ 218,360
<i>Capital Assets, being depreciated:</i>				
Land Improvements	948,051	-	-	948,051
Building and Improvements	34,052,083	-	-	34,052,083
Furniture and Equipment	5,227,998	41,422	-	5,269,420
Vehicles	1,232,579	-	-	1,232,579
<i>Total Capital Assets, being depreciated</i>	<u>41,460,711</u>	<u>41,422</u>	<u>-</u>	<u>41,502,133</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(400,468)	(45,560)	-	(446,028)
Building and Improvements	(6,893,752)	(833,189)	-	(7,726,941)
Furniture and Equipment	(3,402,348)	(433,822)	-	(3,836,170)
Vehicles	(629,695)	(109,739)	-	(739,434)
<i>Total Accumulated Depreciation</i>	<u>(11,326,263)</u>	<u>(1,422,310) *</u>	<u>-</u>	<u>(12,748,573)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>30,134,448</u>	<u>(1,380,888)</u>	<u>-</u>	<u>28,753,560</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 30,352,808</u>	<u>\$ (1,380,888)</u>	<u>\$ -</u>	<u>\$ 28,971,920</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 8 – CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Insrtuction:	
Regular	\$ 568,924
Special	28,446
Vocational Education	4,267
Support Services:	
Pupil	17,068
Instructional Staff	21,335
Board of Education	14,223
Administration	28,446
Fiscal	4,267
Operation and Maintenance of Plant	275,928
Pupil Transportation	369,801
Central	58,315
Operation of Non-Institutional Services:	
Food Service Operations	14,222
Extracurricular Activities	<u>17,068</u>
 Total Depreciation Expense	 <u><u>\$ 1,422,310</u></u>

NOTE 9 – RISK MANAGEMENT

A. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 9 – RISK MANAGEMENT (Continued)

B. Property and Liability

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

<u>Property</u>	<u>Deductible</u>	<u>Limits of Coverage</u>
Real Property	\$ 1,000	\$ 42,114,399
General Liability:		
Per Occurrence	0	1,000,000
Annual Aggregate	0	3,000,000
Boiler and Machinery	1,000	12,100,000
Electronic Equipment	500	1,254,411
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	50,000
Per Accident	0	50,000

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

C. Employee Medical Benefits

Medical/surgical, prescription drug, vision, and dental insurance are offered to employees through a self-insurance internal service fund. Aggregate stop-loss claims are covered based on 125 percent of expected claims per year. After that, stop-loss covers up to a lifetime maximum of \$1,000,000 per individual. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The claims liability of \$221,489 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2006 and 2005 were:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2005	\$ 224,449	\$ 1,523,789	\$ 1,540,415	\$ 207,823
2006	\$ 207,823	\$ 1,712,255	\$ 1,698,589	\$ 221,489

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853. It is also posted SERS' website, www.ohsers.org, under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$284,736, \$273,480 and \$278,964, respectively; 47 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. STRS Ohio is funded through investments and contributions made by members and their employers. Members contribute 10% of gross earnings. Employers contribute an additional 14% of members' annual salary into the Employers' Trust Fund. There are approximately 1,061 employers who contribute to STRS Ohio, including city and local school districts, county educational service centers, exempted village districts, vocational and technical schools, colleges and universities, county boards of mental retardation and developmental disabilities, as well as the state of Ohio.

During 2004-2005 (the latest information available) member contributions plus payments for purchased service credit totaled \$997.8 million. The contributions from 1,061 employers, combined with service credit purchased by employers through retirement incentive plans, totaled \$1.34 billion. During this same period STRS Ohio experienced a net investment income of \$6.5 billion. As of June 30, 2005, STRS Ohio's net assets available for benefits were \$59.6 billion. Approximately \$39.7 billion of this amount has been placed in the Annuity and Pension Reserve Fund to pay for benefits to more than 115,400 retired teachers and other beneficiaries.

The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$993,192, \$941,256 and \$901,152, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$70,942 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance in the fund was \$3.1 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$98,471 during the 2006 fiscal year.

Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. *Compensated Absences*

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 12 – OTHER EMPLOYEE BENEFITS (Continued)

B. Insurance Benefits

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

NOTE 13 - GENERAL LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during the fiscal year 2006 were as follows:

	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006	Amount Due in One Year
Governmental Activities					
General Obligation Bonds:					
Classroom Facilities					
Bonds - 3.45%, 5.375%	\$ 3,155,000	\$ -	\$ (115,000)	\$ 3,040,000	\$ 120,000
Compensated Absences	1,093,155	-	(74,114)	1,019,041	91,697
Capital Leases	193,199	-	(41,891)	151,308	38,610
	<u>\$ 4,441,354</u>	<u>\$ -</u>	<u>\$ (231,005)</u>	<u>\$ 4,210,349</u>	<u>\$ 250,307</u>

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

Compensated absences will be paid from the fund from which the employees’ salaries are paid.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 120,000	\$ 164,326	\$ 284,326
2008	130,000	158,511	288,511
2009	135,000	152,250	287,250
2010	140,000	141,554	281,554
2011	155,000	130,189	285,189
2012-2016	905,000	517,209	1,422,209
2017-2021	1,180,000	239,188	1,419,188
2022	275,000	7,391	282,391
Total	<u>\$ 3,040,000</u>	<u>\$ 1,510,618</u>	<u>\$ 4,550,618</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 14 – CAPITALIZED LEASES

Capital lease obligations relate to copier equipment which is leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13, "Accounting for Leases." Capital lease payments in the governmental funds have been reclassified and are reflected as debt service expenditures on the fund financial statements in the general fund. These expenditures are reflected as instruction – regular and support services – administration on the budgetary basis in the general fund. The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Ending June 30,	Amount
2007	\$ 47,675
2008	47,676
2009	47,676
2010	27,812
Total Minimum Lease Payments	170,839
Less: Amount Representing Interest	(19,531)
Present Value of Minimum Lease Payments	\$ 151,308

NOTE 15 – UNEARNED REVENUE

Unearned revenue at June 30, 2006 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property tax receivable	\$ 2,775,229	\$ 3,711,468
Grants receivable	-	554,517
Total unearned revenue	\$ 2,775,229	\$ 4,265,985

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

A. Southeast Ohio Voluntary Educational Consortium (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$40,915 for services provided during the year. To obtain financial information, write to the Southeast Ohio Voluntary Education Consortium, Bobbie Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45710.

B. Tri-County Joint Vocational School District

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

C. Coalition of Rural and Appalachian Schools

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

D. Southeastern Ohio Special Education Regional Resource Council

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 17 – INSURANCE PURCHASING

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

NOTE 18 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

As of June 30, 2006, the School District was a party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

NOTE 19 – SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount 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 year-end. These amounts must be carried forward to be used for the same purposes in future years.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

NOTE 19 – SET-ASIDES (Continued)

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	Textbook Reserve	Capital Maintenance Reserve
Set-aside balance as of June 30, 2005	\$ 297,575	\$ -
Current year set-aside requirement	291,598	291,598
Qualifying disbursements	<u>(330,299)</u>	<u>(166,323)</u>
Total	<u>(38,701)</u>	<u>125,275</u>
Beginning carryover offsets	-	(800,862)
Current year offsets	<u>-</u>	<u>(60,032)</u>
Total available offsets	<u>-</u>	<u>(860,894)</u>
Current year application	<u>-</u>	<u>125,275</u>
Offsets to be carried forward	<u>-</u>	<u>\$ (735,619)</u>
Set-aside reserve balance as of June 30, 2006	<u>\$ 258,874</u>	

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

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$ -	\$ 94,812	\$ -	\$ 94,812
School Breakfast Program	05-PU	10.553	106,034	-	106,034	-
National School Lunch Program	LL-P1,P4	10.555	322,610	-	322,610	-
Summer Food Service Program for Children	23, 24-PU	10.559	33,339	-	33,339	-
<i>Total Child Nutrition Cluster</i>			<u>461,983</u>	<u>94,812</u>	<u>461,983</u>	<u>94,812</u>
Total U.S. Department of Agriculture			<u>461,983</u>	<u>94,812</u>	<u>461,983</u>	<u>94,812</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1, SD	84.010	599,688	-	566,884	-
Special Education-Grants to States	6BSF	84.027	430,350	-	460,438	-
Vocational Education-Basic Grants to States	20A0	84.048	2,051	-	6,253	-
Safe and Drug Free Schools and Communities-State Grants	DRS1	84.186	15,348	-	15,348	-
Twenty-First Century Community Learning Centers	T1A2	84.287	5,000	-	-	-
State Grants for Innovative Programs	C2S1	84.298	14,664	-	15,225	-
Education Technology State Grants	TJS1	84.318	172	-	2,626	-
Reading First State Grants	RSS1	84.357	776,405	-	684,723	-
Rural Education	RUS1	84.358	3,035	-	7,649	-
Improving Teacher Quality State Grants	TR-S1	84.367	102,921	-	77,927	-
Total U.S. Department of Education			<u>1,949,634</u>	<u>-</u>	<u>1,837,073</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	N/A	93.767	1,754	-	1,754	-
Medical Assistance Program	N/A	93.778	15,452	-	15,452	-
Total U.S. Department of Health and Human Services			<u>17,206</u>	<u>-</u>	<u>17,206</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,428,823</u>	<u>\$ 94,812</u>	<u>\$ 2,316,262</u>	<u>\$ 94,812</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the accompanying Schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture.



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

Board of Education
New Lexington City School District
101 Third Avenue
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the New Lexington City School District, Perry County, Ohio (the School District) as of and for the fiscal year ended June 30, 2006 and have issued our report thereon dated November 22, 2006 wherein we noted that the School District implemented GASB Statement No. 42, 46, and 47 as disclosed in Note 2.S. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

Wilson, Shannon & Snow, Inc.

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

New Lexington City School District
Perry County
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

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

Wilson, Sherman & Sons, Inc.

Newark, Ohio
November 22, 2006



**Report on Compliance with Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Education
New Lexington City School District
101 Third Avenue
New Lexington, Ohio 43764

Compliance

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

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

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

Internal Control over Compliance

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

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New Lexington City School District
Perry County
Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with *OMB Circular A-133*
Page 2

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

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
November 22, 2006

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster/CFDA# 10.550, CFDA# 10.553, CFDA# 10.555, and CFDA# 10.559 Reading First State Grants/CFDA# 84.357
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRYCOUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

NEW LEXINGTON CITY SCHOOL DISTRICT

PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 30, 2007**