

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

AUDITED FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2010*



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lexington Local School District, Richland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 20, 2011

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

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December 14, 2010

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lexington Local School District (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in cash financial position, and the respective budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

During fiscal year 2010, the District changed its accounting policies from generally accepted accounting principles to the cash basis of accounting. See Note 3 for further information.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Management Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but are 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.

Hea & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2010, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- The total net cash assets of the District decreased \$1,365,355 or 37.33 % from fiscal year 2009.
- General cash receipts accounted for \$19,845,564 or 85.52% of total governmental activities cash receipts. Program specific cash receipts accounted for \$3,359,947 or 14.48% of total governmental activities cash receipts.
- The District had \$24,570,866 in cash disbursements related to governmental activities; \$3,359,947 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$19,845,564 were not adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had cash receipts of \$19,510,648 in 2010. The cash disbursements and other financing uses of the general fund, totaled \$20,967,945 in 2010. The general fund's cash balance decreased \$1,457,297 from 2009 to 2010.

Using this Cash Basis Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2010?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 15-16 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health and dental self-insurance. The basic proprietary fund financial statements can be found on pages 18-19 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and an agency fund. The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-42 of this report.

Government-Wide Financial Analysis

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

The table below provides a summary of the District's net assets for at June 30, 2010 and June 30, 2009. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.

	Change in Net Assets	
	Governmental Activities 2010	Restated Governmental Activities 2009
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 2,289,770	\$ 3,655,125
Cash in segregated accounts	<u>1,925</u>	<u>1,925</u>
Total assets	<u>2,291,695</u>	<u>3,657,050</u>
<u>Net Cash Assets</u>		
Restricted	320,557	200,957
Unrestricted	<u>1,971,138</u>	<u>3,456,093</u>
Total net cash assets	<u>\$ 2,291,695</u>	<u>\$ 3,657,050</u>

The total net assets of the District decreased \$1,365,355, which represents a 37.33% decrease under fiscal year 2009. The decrease is due primarily to the slight decrease in interest and unrestricted revenues and the increase in instruction expenses.

The balance of government-wide unrestricted net assets of \$1,971,138 may be used to meet the government's ongoing obligations to citizens and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The table below shows the changes in net assets for fiscal year 2010 and 2009. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.

	Change in Net Assets	
	Governmental	Restated
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$ 1,189,298	\$ 1,176,756
Operating grants and contributions	2,170,649	1,729,724
Capital grants and contributions	<u>-</u>	<u>14,175</u>
Total program cash receipts	<u>3,359,947</u>	<u>2,920,655</u>
General cash receipts:		
Property and other taxes	9,244,413	9,380,734
Unrestricted grants	10,453,334	10,384,116
Sale of notes	-	300,000
Investment earnings	56,648	94,977
Other	<u>91,169</u>	<u>63,714</u>
Total general cash receipts	<u>19,845,564</u>	<u>20,223,541</u>
Total cash receipts	<u>23,205,511</u>	<u>23,144,196</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Change in Net Assets (Continued)

	Governmental Activities <u>2010</u>	Restated Governmental Activities <u>2009</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,103,897	\$ 9,908,260
Special	2,558,428	2,129,479
Other	958,525	824,959
Support services:		
Pupil	879,700	802,442
Instructional staff	1,659,450	1,774,172
Board of education	66,996	46,101
Administration	1,926,688	1,845,503
Fiscal	488,747	539,201
Business	6,577	8,014
Operations and maintenance	2,082,056	2,766,922
Pupil transportation	1,297,000	1,350,568
Central	185,026	248,640
Operation of non instructional services:		
Other non-instructional services	3,631	16,911
Food service operations	934,763	923,735
Extracurricular	1,151,390	1,163,643
Facilities acquisition and construction	-	2,951
Debt service:		
Principal retirement	240,586	180,588
Interest and fiscal charges	<u>27,406</u>	<u>30,133</u>
Total cash disbursements	<u>24,570,866</u>	<u>24,562,222</u>
Change in net cash assets	(1,365,355)	(1,418,026)
Net cash assets at beginning of year (restated)	<u>3,657,050</u>	<u>5,075,076</u>
Net cash assets at end of year	<u>\$ 2,291,695</u>	<u>\$ 3,657,050</u>

Governmental Activities

Governmental assets decreased by \$1,365,355 in fiscal year 2010 from fiscal year 2009. The decrease is due primarily to the increase in instruction expenses and the slight decrease in interest and unrestricted grants as well as the \$300,000 sale of notes in 2009. Total governmental expenses of \$24,570,866 were offset by program revenues of \$3,359,947 and general revenues of \$19,845,564. Program revenues supported 13.67% of the total governmental expenses.

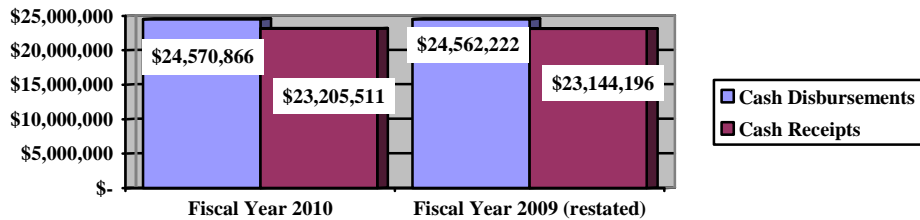
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.88% of total governmental revenue. Real estate property is reappraised every six years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2009 and 2010. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



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

Governmental Activities

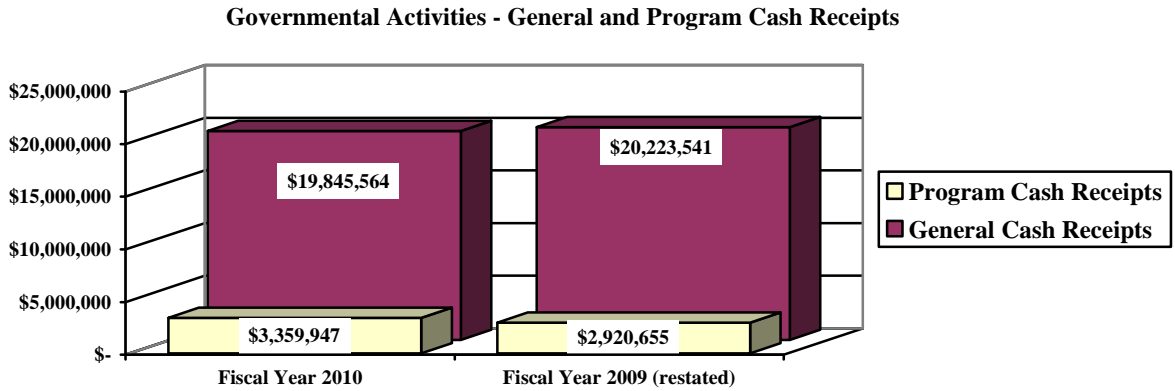
	Total Cost of Services 2010	Net Cost of Services 2010	Restated Total Cost of Services 2009	Restated Net Cost of Services 2009
Cash disbursements:				
Instruction:				
Regular	\$ 10,103,897	\$ 9,822,177	\$ 9,908,260	\$ 9,670,719
Special	2,558,428	1,776,858	2,129,479	1,087,706
Other	958,525	765,106	824,959	824,959
Support services:				
Pupil	879,700	504,992	802,442	506,084
Instructional staff	1,659,450	1,647,996	1,774,172	1,771,591
Board of education	66,996	66,996	46,101	32,604
Administration	1,926,688	1,836,825	1,845,503	1,771,305
Fiscal	488,747	488,747	539,201	539,201
Business	6,577	6,577	8,014	8,014
Operations and maintenance	2,082,056	1,802,480	2,766,922	2,750,022
Pupil transportation	1,297,000	1,201,222	1,350,568	1,289,314
Central	185,026	66,571	248,640	226,505
Operation of non instructional services:				
Other non-instructional services	3,631	3,566	16,911	16,397
Food service operations	934,763	30,750	923,735	923,735
Extracurricular	1,151,390	922,064	1,163,643	919,042
Facilities acquisition and construction	-	-	2,951	(906,352)
Debt service:				
Principal retirement	240,586	240,586	180,588	180,588
Interest and fiscal charges	27,406	27,406	30,133	30,133
Total	<u>\$ 24,570,866</u>	<u>\$ 21,210,919</u>	<u>\$ 24,562,222</u>	<u>\$ 21,641,567</u>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The dependence upon general cash receipts for governmental activities is apparent; with 86.33% of cash disbursements supported through taxes and other general cash receipts during 2010.

The graph below presents the District’s governmental activities cash receipts for fiscal years 2010 and 2009. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.



Financial Analysis of the Government’s Funds

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

Governmental Funds

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

The District’s governmental funds reported a combined fund balance of \$2,039,479, which is \$1,327,705 below last year’s total of \$3,367,184. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009, for all major and nonmajor governmental funds. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.

	Fund Balance June 30, 2010	Restated Fund Balance June 30, 2009	Increase (Decrease)
Major funds:			
General	\$ 1,719,614	\$ 3,176,911	\$(1,457,297)
Other nonmajor governmental funds	<u>319,865</u>	<u>190,273</u>	<u>129,592</u>
Total	<u>\$ 2,039,479</u>	<u>\$ 3,367,184</u>	<u>\$(1,327,705)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

General Fund

The general fund, the District's largest major fund, had cash receipts of \$19,510,648 in 2010. The cash disbursements and other financing uses of the general fund, totaled \$20,967,945 in 2010. The general fund's fund balance decreased \$1,457,297 from 2009 to 2010. The decrease in fund balance can be attributed to a decrease in tax revenue and intergovernmental revenue. Tax revenue decreased in fiscal year 2010 due to the phase out of tangible personal property taxes and intergovernmental revenues decreased due to the decrease in funds received from the State. Earnings on investments also decreased due to lower rates of interest on the District's investments.

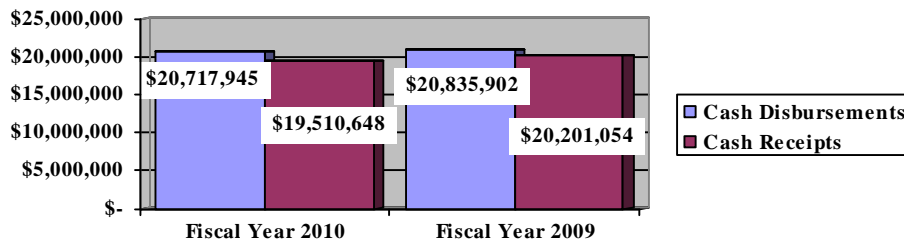
The table that follows assists in illustrating the cash receipts of the general fund.

	2010 <u>Amount</u>	Restated 2009 <u>Amount</u>	Percentage <u>Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 8,669,663	\$ 8,796,323	(1.44) %
Tuition	189,198	103,967	81.98 %
Earnings on investments	56,069	93,456	(40.00) %
Other local revenues	175,409	165,098	6.25 %
Intergovernmental - State	<u>10,420,309</u>	<u>11,042,210</u>	(5.63) %
Total	<u>\$ 19,510,648</u>	<u>\$ 20,201,054</u>	(3.42) %

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

	2010 <u>Amount</u>	Restated 2009 <u>Amount</u>	Percentage <u>Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 12,646,032	\$ 12,233,893	3.37 %
Support services	7,167,418	7,713,627	(7.08) %
Operation of non instruction	339	10,877	(96.88) %
Extracurricular	867,773	841,123	3.17 %
Debt service	<u>36,383</u>	<u>36,382</u>	0.00 %
Total	<u>\$ 20,717,945</u>	<u>\$ 20,835,902</u>	(0.57) %

General Fund - Total Cash Receipts vs. Total Cash Disbursements



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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Budgeting Highlights - General Fund

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

During the course of fiscal year 2010, the District amended its general fund budget numerous times. For the general fund, original budgeted revenues and other financing sources were \$15,605,626 they were increased to \$18,605,626 in the final budgeted revenues. Actual revenues and other financing sources for fiscal year 2010 were \$19,510,648. This represents a \$905,022 increase over final budgeted revenues. The increase is due primarily to the increase in actual property taxes and intergovernmental revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$15,680,810 were increased to \$21,680,810 in the final appropriations. The actual budget basis expenditures for fiscal year 2010 totaled \$20,989,058, which was \$691,752 less than the final budget appropriations. The decrease is due primarily to the decrease in actual expenses related to regular instruction.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The District had the following long-term obligations outstanding at June 30, 2010 and 2009. Amounts at June 30, 2009 for the District were restated as described in Note 3 to the basic financial statements.

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Lease purchase agreement	\$ -	\$ 113,019
Capital lease obligation	68,014	98,163
Note payable	<u>155,558</u>	<u>252,976</u>
Total long-term obligations	<u>\$ 223,572</u>	<u>\$ 464,158</u>

Current Financial Related Activities

The District is facing some very serious funding challenges as we look ahead to the next few years. Our projected revenues are not keeping pace with our expenses and deficits are looming, potentially as early as 2012. We are fortunate to have a permanent improvement levy which gives us the ability to keep our facilities, vehicles, technology and instructional materials up to date for the best service to our students.

We have reached the point, this fiscal year, where we have no other options than to place a ballot issue before our voters. The plan as of now is to pursue an emergency levy at the May, 2011 primary election.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

State and federal funding play a key role in the operation of the District. Due to the population of special needs students we serve, we receive a significant amount of IDEA funding. Other revenue from the federal government in the way of CCIP funding is relatively nominal, but nevertheless helpful, in funding professional development for our staff, innovative programs, reading initiatives, substance abuse education and technology updates. We also receive a small amount of EMIS, Gifted ID and Bus Purchase funding from the State of Ohio. Our State Foundation payments did not increase for fiscal year 2010 and are actually decreasing this year. Assistance from the Federal Government in the form of 'stimulus' funds to the State of Ohio are being used to supplant funding that the State, due to its own budget shortfall, would have been unable to fund for fiscal year 2010. We know, and have to include in our projections, the fact that this influx from the Federal government is only a two year band-aid and the future beyond 2011 looks very unstable for our State Foundation funding.

A substantial amount of other Federal money funneled through the State from the Federal government in the area of Special Education and Title I is available to us for the 2010- 2011 period as well. The guidelines and funding options for this money are quite strict and while it will surely help with the two programs it is channeled to, it will do nothing to help our general fund bottom line, which is currently the biggest concern.

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

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

Contacting the District's Financial Management

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

CASH BASIS BASIC
FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2010

		Governmental Activities
Assets:		
Equity in pooled cash and cash equivalents.	\$	2,289,770
Cash in segregated accounts		1,925
		<hr/>
Total assets.		2,291,695
		<hr/>
Net Cash Assets:		
Restricted for:		
Capital projects		92,751
Debt service.		1,925
Locally funded programs		25,451
State funded programs.		10,141
Federally funded programs		50,792
Public school support		25,354
Student activities		21,682
Other purposes		92,461
Unrestricted.		1,971,138
		<hr/>
Total net cash assets	\$	2,291,695
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Change in Net Cash Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,103,897	\$ 235,566	\$ 46,154	\$ (9,822,177)
Special	2,558,428	30,991	750,579	(1,776,858)
Other	958,525	-	193,419	(765,106)
Support services:				
Pupil	879,700	-	374,708	(504,992)
Instructional staff	1,659,450	-	11,454	(1,647,996)
Board of education	66,996	-	-	(66,996)
Administration	1,926,688	39,847	50,016	(1,836,825)
Fiscal	488,747	-	-	(488,747)
Business	6,577	-	-	(6,577)
Operations and maintenance	2,082,056	11,352	268,224	(1,802,480)
Pupil transportation	1,297,000	-	95,778	(1,201,222)
Central	185,026	-	118,455	(66,571)
Operation of non-instructional services:				
Other non-instructional services	3,631	-	65	(3,566)
Food service operations	934,763	643,173	260,840	(30,750)
Extracurricular activities	1,151,390	228,369	957	(922,064)
Debt service:				
Principal retirement	240,586	-	-	(240,586)
Interest and fiscal charges	27,406	-	-	(27,406)
Totals	\$ 24,570,866	\$ 1,189,298	\$ 2,170,649	(21,210,919)
General Cash Receipts:				
Property taxes levied for:				
General purposes				8,669,663
Capital projects				574,750
Grants and entitlements not restricted				
to specific programs				10,453,334
Investment earnings				56,648
Miscellaneous				91,169
Total general receipts				19,845,564
Change in net cash assets				(1,365,355)
Net cash assets at beginning of year (restated)				3,657,050
Net cash assets at end of year				\$ 2,291,695

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,637,571	\$ 317,940	\$ 1,955,511
Cash in segregated accounts	-	1,925	1,925
Restricted assets:			
Equity in pooled cash and cash equivalents	82,043	-	82,043
Total assets	\$ 1,719,614	\$ 319,865	\$ 2,039,479
 Fund Cash Balances:			
Reserved for encumbrances.	\$ 21,113	\$ 73,626	\$ 94,739
Reserved for debt service.	-	1,925	1,925
Reserved for school bus purchases.	692	-	692
Reserved for BWC refunds	81,351	-	81,351
Unreserved, undesignated, reported in:			
General fund.	1,616,458	-	1,616,458
Special revenue funds	-	180,581	180,581
Capital projects funds	-	63,733	63,733
Total fund cash balances	\$ 1,719,614	\$ 319,865	\$ 2,039,479

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Cash receipts:			
From local sources:			
Property taxes	\$ 8,669,663	\$ 574,750	\$ 9,244,413
Tuition	189,198	-	189,198
Earnings on investments	56,069	165	56,234
Charges for services	-	634,738	634,738
Extracurricular	-	267,175	267,175
Classroom materials and fees	73,821	-	73,821
Rental income	11,352	3,057	14,409
Contributions and donations	-	5,679	5,679
Other local revenues	90,236	48,067	138,303
Intergovernmental - state	10,420,309	114,030	10,534,339
Intergovernmental - federal	-	2,046,623	2,046,623
Total cash receipts	<u>19,510,648</u>	<u>3,694,284</u>	<u>23,204,932</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	9,926,000	31,303	9,957,303
Special	1,805,731	720,146	2,525,877
Other	914,301	44,224	958,525
Support services:			
Pupil	512,218	360,428	872,646
Instructional staff	1,610,660	11,785	1,622,445
Board of education	66,996	-	66,996
Administration	1,675,600	231,497	1,907,097
Fiscal	474,542	10,982	485,524
Business	6,577	-	6,577
Operations and maintenance	1,801,396	260,530	2,061,926
Pupil transportation	1,019,429	267,476	1,286,905
Central	-	185,026	185,026
Operation of non-instructional	339	3,292	3,631
Food service operations	-	924,605	924,605
Extracurricular activities	867,773	281,789	1,149,562
Debt service:			
Principal retirement	28,642	211,944	240,586
Interest and fiscal charges	7,741	19,665	27,406
Total cash disbursements	<u>20,717,945</u>	<u>3,564,692</u>	<u>24,282,637</u>
Excess/deficiency of cash receipts over/under cash disbursements	<u>(1,207,297)</u>	<u>129,592</u>	<u>(1,077,705)</u>
Other financing (uses):			
Advances (out)	<u>(250,000)</u>	<u>-</u>	<u>(250,000)</u>
Total other financing (uses)	<u>(250,000)</u>	<u>-</u>	<u>(250,000)</u>
Net change in fund cash balances	<u>(1,457,297)</u>	<u>129,592</u>	<u>(1,327,705)</u>
Fund cash balances at			
beginning of year (restated)	<u>3,176,911</u>	<u>190,273</u>	<u>3,367,184</u>
Fund cash balances at end of year	<u>\$ 1,719,614</u>	<u>\$ 319,865</u>	<u>\$ 2,039,479</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 6,930,723	\$ 8,266,649	\$ 8,669,663	\$ 403,014
Tuition	151,249	180,403	189,198	8,795
Earnings on investments	44,823	53,463	56,069	2,606
Classroom materials and fees	59,014	70,389	73,821	3,432
Rental income	9,075	10,824	11,352	528
Other local revenues	38,752	46,222	48,475	2,253
Intergovernmental - state	8,330,229	9,935,915	10,420,309	484,394
Total budgetary basis receipts	<u>15,563,865</u>	<u>18,563,865</u>	<u>19,468,887</u>	<u>905,022</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	7,412,904	10,295,280	9,962,961	332,319
Special	1,343,546	1,865,960	1,805,731	60,229
Other	570,749	792,675	914,301	(121,626)
Support Services:				
Pupil	382,378	531,060	513,918	17,142
Instructional staff	1,206,050	1,675,002	1,620,936	54,066
Board of education	49,894	69,295	67,058	2,237
Administration	1,356,346	1,883,737	1,675,722	208,015
Fiscal	354,420	492,230	476,342	15,888
Business	4,894	6,796	6,577	219
Operations and maintenance	1,306,633	1,814,695	1,806,124	8,571
Pupil transportation	796,623	1,106,376	1,020,660	85,716
Operation of non-instructional services	298	413	400	13
Extracurricular activities	646,075	897,291	868,328	28,963
Total budgetary basis disbursements	<u>15,430,810</u>	<u>21,430,810</u>	<u>20,739,058</u>	<u>691,752</u>
Excess / deficiency of budgetary basis receipts over / under budgetary basis disbursements	<u>133,055</u>	<u>(2,866,945)</u>	<u>(1,270,171)</u>	<u>1,596,774</u>
Other financing sources (uses):				
Refund of prior year's expenditures	41,761	41,761	41,761	-
Advances (out)	(250,000)	(250,000)	(250,000)	-
Total other financing sources (uses)	<u>(208,239)</u>	<u>(208,239)</u>	<u>(208,239)</u>	<u>-</u>
Net change in fund cash balance	(75,184)	(3,075,184)	(1,478,410)	1,596,774
Fund cash balance at beginning of year	3,153,689	3,153,689	3,153,689	-
Prior year encumbrances appropriated	23,222	23,222	23,222	-
Fund cash balance at end of year	<u>\$ 3,101,727</u>	<u>\$ 101,727</u>	<u>\$ 1,698,501</u>	<u>\$ 1,596,774</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF PROPRIETARY NET ASSETS - CASH BASIS
 PROPRIETARY FUND
 JUNE 30, 2010

	<u>Governmental Activities - Internal Service Funds</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 252,216
Total assets.	<u>252,216</u>
Net cash assets:	
Unrestricted.	<u>252,216</u>
Total net cash assets	<u>\$ 252,216</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN PROPRIETARY NET ASSETS - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Governmental Activities - Internal Service Funds</u>
Operating cash receipts:	
Sales/charges for services	\$ 3,265,372
Total operating cash receipts	<u>3,265,372</u>
Operating cash disbursements:	
Purchased services.	325,086
Claims expense	<u>3,228,515</u>
Total operating cash disbursements	<u>3,553,601</u>
Operating income (loss)	<u>(288,229)</u>
Nonoperating cash receipts:	
Advances in	250,000
Interest revenue	<u>579</u>
Total nonoperating revenues.	<u>250,579</u>
Change in net cash assets	(37,650)
Net cash assets at beginning of year (restated)	<u>289,866</u>
Net cash assets at end of year	<u><u>\$ 252,216</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 14,004	\$ 60,368
Total assets.	<u>14,004</u>	<u>\$ 60,368</u>
Liabilities:		
Due to students.	-	60,368
Total liabilities	<u>-</u>	<u>\$ 60,368</u>
Net cash assets:		
Held in trust for scholarships	<u>14,004</u>	
Total net cash assets.	<u>\$ 14,004</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 47
Gifts and contributions.	581
Total additions.	628
Change in net cash assets.	628
Net cash assets at beginning of year (restated)	13,376
Net cash assets at end of year	\$ 14,004

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 5 instructional facilities. The District employs 119 non-certified and 162 certified employees to provide services to approximately 2,802 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL

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

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

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

B. Basis of Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds, (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service.

PROPRIETARY FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

FIDUCIARY FUNDS

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

D. Basis of Presentation and Measurement Focus

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2010 is as follows:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2010.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2010, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at cost.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$56,069, which includes \$10,832 assigned from other District funds.

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

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

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

J. Fund Cash Balance Reserves

The District reserves those portions of fund cash balance which are legally segregated for a specific future use. Unreserved fund cash balance indicates that portion of fund cash balance which is available for appropriation in future periods. Fund cash balance reserves have been established for encumbrances, debt service, school bus purchases and BWC refunds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

L. Net Cash Assets

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

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

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had \$82,043 in restricted cash assets at June 30, 2010. See Note 15 for detail.

N. Interfund Activity

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

O. Parochial Schools

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets / Fund Balances

During fiscal year 2010, the District changed from the modified accrual basis of accounting to the cash basis of accounting (see Note 2.B). The District has also elected to present the cash basis financial statements in a GASB 34-like format. The fund balances for June 30, 2009 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

For reporting in accordance with GASB 34-like statements, the District is required to present government-wide financial statements. These statements consolidate all governmental activities in a single column.

The transition from the modified accrual basis of accounting to the cash basis of accounting had the following effect on fund balances at June 30, 2009:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>	<u>Proprietary Fund Internal Service</u>
Fund Balance at June 30, 2009	\$ 2,269,389	\$ (203,710)	\$ 2,065,679	\$ (148,977)
Change in Reporting Basis Adjustments	<u>907,522</u>	<u>393,983</u>	<u>1,301,505</u>	<u>438,843</u>
Restated Fund Cash Balance at June 30, 2009	<u>\$ 3,176,911</u>	<u>\$ 190,273</u>	<u>3,367,184</u>	<u>\$ 289,866</u>
<u>GASB 34 Adjustments:</u>				
Internal service fund cash balance			<u>289,866</u>	
Governmental Activities Net Cash Assets at June 30, 2009			<u>\$ 3,657,050</u>	

The governmental activities net cash assets at June 30, 2009 equal the restated fund cash balances at June 30, 2009 since there are no adjustments required to convert the fund financial statements to the government-wide financial statements.

B. Compliance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Cash in Segregated Account

At fiscal year end, \$1,925 was on deposit in the District's debt service clearance account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet and statement of net assets as "equity in pooled cash and cash equivalents".

C. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$2,354,396. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$1,469,748 of the District's bank balance of \$2,469,940 was exposed to custodial risk as discussed below, while \$1,000,192 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 6,306	\$ 6,306

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of Total</u>
STAR Ohio	\$ 6,306	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,354,396
Investments	6,306
Cash on hand	<u>5,365</u>
Total	<u>\$ 2,366,067</u>

<u>Cash and investments per statement of net assets</u>	
Governmental funds	\$ 2,291,695
Private purpose trust	14,004
Agency fund	<u>60,368</u>
Total	<u>\$ 2,366,067</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund advances for the year ended June 30, 2010, consisted of the following, as reported on the fund statements:

Advances to the internal service fund from:

General fund	\$ 250,000
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The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. These interfund advances will be repaid once the anticipated revenues are received. All interfund advances are expected to be repaid within one year.

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland and Morrow Counties. The County Auditors periodically advance to the Districts its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2010, are available to finance fiscal year 2010 operations. The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 347,995,730	96.79	\$ 350,459,230	98.08
Public utility personal	6,519,640	1.81	6,852,220	1.92
Tangible personal property	<u>5,043,096</u>	<u>1.40</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 359,558,466</u>	<u>100.00</u>	<u>\$ 357,311,450</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.10		\$29.41	

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital lease payments have been reflected as debt service expenditures in the general fund, the food service fund (a nonmajor governmental fund) and the district-managed activity fund (a nonmajor governmental fund). Principal payments in fiscal year 2010 totaled \$30,149.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 38,297
2012	<u>38,297</u>
Total	76,594
Less: amount representing interest	<u>(8,580)</u>
Total	<u>\$ 68,014</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - LEASE-PURCHASE AGREEMENT

In a prior fiscal year, the District entered into a lease-purchase agreement with Leaf Financial Corporation for new computers and equipment. This lease meets the criteria of a lease-purchase as defined by FASB codification, which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund (a nonmajor governmental fund). Principal payments in fiscal year 2010 totaled \$113,019. At June 30, 2010, the liability of the lease-purchase agreement had been paid in full.

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2010, the following changes occurred in governmental activities long-term obligations. Amounts at June 30, 2009 for the District were restated as described in Note 3.

	Restated Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
Lease purchase agreement	\$ 113,019	\$ -	\$ (113,019)	\$ -	\$ -
Capital lease obligation	98,163	-	(30,149)	68,014	32,652
Note payable	<u>252,976</u>	<u>-</u>	<u>(97,418)</u>	<u>155,558</u>	<u>102,408</u>
Total governmental activities	<u>\$ 464,158</u>	<u>\$ -</u>	<u>\$ (240,586)</u>	<u>\$ 223,572</u>	<u>\$ 135,060</u>

B. Note Payable

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

The following is a schedule of future payments:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 102,408	\$ 6,602	\$ 109,010
2012	<u>53,150</u>	<u>1,355</u>	<u>54,505</u>
Total	<u>\$ 155,558</u>	<u>\$ 7,957</u>	<u>\$ 163,515</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$32,156,865 and an unvoted debt margin of \$357,277.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

The District had the following coverages in effect for fiscal year 2010:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ -
Aggregate	2,000,000	-
Umbrella	5,000,000	10,000
Fleet:		
Comprehensive	1,000,000	500
Collision	1,000,000	500
Building and contents	56,275,856	1,000

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

B. Health Benefits

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

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

C. Workers' Compensation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$392,688, \$291,733 and \$278,000, respectively; 46.61 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,394,681, \$1,340,838 and \$1,281,384, respectively; 85.04 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$78,510, \$195,668 and \$186,430, respectively; 46.61 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$23,352, \$24,070 and \$20,031, respectively; 46.61 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$107,283, \$103,141 and \$98,568, respectively; 85.04 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund receipt, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2009	\$ (2,397,822)	\$ -	\$ 81,351
Current year set-aside requirement	423,804	423,804	-
Offsets	-	(574,750)	-
Qualifying disbursements	<u>(350,924)</u>	<u>(949,185)</u>	<u>-</u>
Total	<u>\$ (2,324,942)</u>	<u>\$ (1,100,131)</u>	<u>\$ 81,351</u>
Balance carried forward to fiscal year 2011	<u>\$ (2,324,942)</u>	<u>\$ -</u>	<u>\$ 81,351</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - STATUTORY RESERVES - (Continued)

In addition to the above statutory reserves, the District has \$692 in cash restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2010 follows:

Fund balance - reserved for school bus purchases	\$ 692
Fund balance - reserved for BWC refunds	<u>81,351</u>
Total restricted assets	<u>\$ 82,043</u>

NOTE 16 – BUDGETARY BASIS OF ACCOUNTING

The budget basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The statement of Receipts, Disbursements, and Changes in Fund Balance “Budget and Actual” – Budget Basis, presented for the general fund is prepared on the budgetary basis to provide meaningful comparisons of actual results with the budget. The difference between budgetary basis and cash basis is because outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than a reservation of fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) amount to:

General fund	\$ 21,113
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Lexington Local School District

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Audit Report Letters

June 30, 2010

LEXINGTON LOCAL SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 14, 2010

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

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lexington Local School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2010, which emphasized the District changed their reporting format to the cash basis which is an other comprehensive basis of accounting not in accordance with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2010-01.

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

We also noted certain matters that we reported to management of the District in a separate letter dated December 14, 2010.

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

Rea & Associates, Inc.



December 14, 2010

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

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

Compliance

We have audited the compliance of Lexington Local School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards – Cash Basis

We have audited the financial statements of the governmental funds, its major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010, which emphasized the District changed their reporting format to the cash basis which is an other comprehensive basis of accounting not in accordance with generally accepted accounting principles. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management 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.

Rea & Associates, Inc.

LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
U. S. Department of Education (Passed Through Ohio Department of Education):				
<i>Title I Cluster</i>				
Title I	84.010	2009	\$ 24,016	\$ 13,332
Title I	84.010	2010	201,720	198,103
Title I- ARRA	84.389	2010	31,807	30,270
Total Title I Cluster			<u>257,543</u>	<u>241,705</u>
<i>Special Education Cluster</i>				
IDEA-B	84.027	2009	0	8,957
IDEA-B	84.027	2010	428,046	414,863
IDEA-B- ARRA	84.391	2010	450,264	420,880
Total Special Educaton Cluster			<u>878,310</u>	<u>844,700</u>
Safe and Drug-Free Schools and Communities	84.186	2010	2,813	2,038
Total Safe and Drug-Free Schools and Communities			<u>2,813</u>	<u>2,038</u>
Title II-D	84.318	2009	51	1,670
Title II-D	84.318	2010	2,048	2,099
Total Title II-D			<u>2,099</u>	<u>3,769</u>
Title II-A	84.367	2009	4,657	7,478
Title II-A	84.367	2010	55,270	54,616
Total Title II-A			<u>59,927</u>	<u>62,094</u>
State Fiscal Stabilization Fund - ARRA	84.394	2010	590,888	590,888
Total State Fiscal Stabilization Fund			<u>590,888</u>	<u>590,888</u>
Total U.S. Department of Education			<u>1,791,580</u>	<u>1,745,194</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):				
Non-Cash Assistance:				
National School Lunch Program (B)	10.555	2010	58,926	58,926
Cash Assistance:				
National School Lunch Program (A)	10.555	2010	255,044	255,044
Total National School Lunch Program			<u>313,970</u>	<u>313,970</u>
Total U.S. Department of Agriculture			<u>313,970</u>	<u>313,970</u>
Total Federal Assistance			<u>\$ 2,105,550</u>	<u>\$ 2,059,164</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

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

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2010*

Note A – National School Lunch Program

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

Note B – Food Donation Program

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

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2010, the ODE authorized the following transfers:

CFDA		Program		
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.367	Title II-A - Improving Teacher Quality	2009	\$ 1,643	
84.367	Title II-A - Improving Teacher Quality	2010		\$ 1,643
84.318	Title II-D - Technology	2009	51	
84.318	Title II-D –Technology	2010		51

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster State Fiscal Stabilization Fund National School Lunch Program	CFDA: 84.027, 84.391 84.394 10.555
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

Finding Number: 2010-01

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

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

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

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

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

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted



Dave Yost • Auditor of State

LEXINGTON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 1, 2011