

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

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001***

BART GRIFFITH, TREASURER



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 Trimble, Julian & Grube, Inc., for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

January 14, 2002

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

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TRIMBLE, JULIAN & GRUBE, INC.

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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the Lexington Local School District, Richland County (the "District") as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lexington Local School District, Richland County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2001, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
November 29, 2001

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

| | Governmental Fund Types | | | Proprietary Fund Types | | Fiduciary Fund Types | | Account Groups | | Total (Memorandum Only) |
|---|-------------------------|-----------------|--------------|------------------------|------------|----------------------|------------------|----------------|-----------------------|-------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | Long-Term Obligations | |
| | | | | | | | | Fixed Assets | | |
| ASSETS AND OTHER DEBITS | | | | | | | | | | |
| ASSETS: | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$1,857,956 | \$90,614 | \$50,014 | \$29,791 | \$119,697 | \$203,930 | \$43,420 | | | \$2,345,408 |
| Cash with fiscal agent | | | | | | | | | | 50,014 |
| Receivables (net of allowances of uncollectibles): | | | | | | | | | | |
| Property taxes - current & delinquent . . | 7,360,931 | | 177,372 | 524,054 | | 5,275 | | | | 8,062,357 |
| Accounts | 143,269 | 120 | | | | | | | | 148,664 |
| Accrued interest | 617 | | | | | | | | | 617 |
| Due from other governments | | | | | 15,181 | | | | | 15,181 |
| Materials and supplies inventory | 27,160 | | | | 33,364 | | | | | 60,524 |
| Restricted assets: | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | 81,351 | | | | | | | | | 81,351 |
| Property, plant and equipment (net of accumulated depreciation where applicable). | | | | | 37,902 | | | \$12,610,492 | | 12,648,394 |
| OTHER DEBITS: | | | | | | | | | | |
| Amount available in Debt Service Fund . | | | | | | | | | \$10,883 | 10,883 |
| Amount to be provided for retirement of General Long-Term Obligations. | | | | | | | | | 2,638,138 | 2,638,138 |
| Total assets and other debits | \$9,471,284 | \$90,734 | \$227,386 | \$553,845 | \$206,144 | \$209,205 | \$43,420 | \$12,610,492 | \$2,649,021 | \$26,061,531 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

| | Governmental Fund Types | | | | Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total Memorandum (Memorandum Only) |
|--|-------------------------|-----------------|--------------|------------------|------------------------|------------------|----------------------|----------------|-----------------------|------------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | Long-Term Obligations | |
| | | | | | | | | Fixed Assets | | |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | |
| Accounts payable | \$5,217 | \$147 | | \$1,400 | | | | | | \$6,764 |
| Accrued wages and benefits | 1,858,293 | 5,611 | | | \$71,555 | | | | \$1,620,454 | 1,935,459 |
| Compensated absences payable | 181,925 | | | | 75,046 | | | | | 1,877,425 |
| Pension obligation payable | 226,596 | 684 | | | 34,621 | | | | 103,567 | 365,468 |
| Deferred revenue | 6,909,291 | | \$166,489 | 491,901 | 28,171 | | | | | 7,595,852 |
| Due to students | | | | | | \$43,420 | | | | 43,420 |
| Claims payable | | | | | | \$218,488 | | | | 218,488 |
| Matured bonds payable | | | 50,014 | 102,590 | | | | | 925,000 | 50,014 |
| General obligation notes payable | | | | | | | | | | 102,590 |
| Energy conservation bonds payable | | | | | | | | | | 925,000 |
| Total liabilities | 9,181,322 | 6,442 | 216,503 | 595,891 | 209,393 | 218,488 | 43,420 | | 2,649,021 | 13,120,480 |
| EQUITY AND OTHER CREDITS: | | | | | | | | | | |
| Investment in general fixed assets | | | | | | | | \$12,610,492 | | 12,610,492 |
| Accumulated deficit | | | | | (3,249) | (9,283) | | | | (12,532) |
| Fund balances: | | | | | | | | | | |
| Reserved for encumbrances | 242,247 | 7,723 | | 226,875 | | | | | | 476,845 |
| Reserved for supplies inventory | 27,160 | | | | | | | | | 27,160 |
| Reserved for tax revenue unavailable for appropriation | 451,640 | | 10,883 | 32,153 | | | | | | 494,676 |
| Reserved for BWC refunds | 81,351 | | | | | | | | | 81,351 |
| Unreserved-undesignated | (512,436) | 76,569 | | (301,074) | | | | | | (736,941) |
| Total equity and other credits | 289,962 | 84,292 | 10,883 | (42,046) | (3,249) | (9,283) | | 12,610,492 | | 12,941,051 |
| Total liabilities, equity and other credits | \$9,471,284 | \$90,734 | \$227,386 | \$553,845 | \$206,144 | \$209,205 | \$43,420 | \$12,610,492 | \$2,649,021 | \$26,061,531 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES/(DEFICIT)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | Governmental Fund Types | | | | Total (Memorandum Only) |
|--|-------------------------|--------------------|-----------------|---------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | |
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | \$7,348,761 | | \$263,340 | \$419,836 | \$8,031,937 |
| Tuition | 114,386 | | | | 114,386 |
| Earnings on investments. | 233,266 | | | | 233,266 |
| Other local revenues. | 438,859 | \$289,942 | | 434 | 729,235 |
| Intergovernmental - State. | 8,286,477 | 177,951 | 12,868 | 225,167 | 8,702,463 |
| Intergovernmental - Federal | | 257,969 | | | 257,969 |
| Total revenues | 16,421,749 | 725,862 | 276,208 | 645,437 | 18,069,256 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 7,782,222 | 115,196 | | 485,717 | 8,383,135 |
| Special | 995,295 | 78,065 | | 1,400 | 1,074,760 |
| Other | 209,681 | | | | 209,681 |
| Support services: | | | | | |
| Pupil | 644,339 | 11,331 | | 495 | 656,165 |
| Instructional staff. | 887,130 | 209,458 | | 15,948 | 1,112,536 |
| Board of Education. | 5,471 | | | | 5,471 |
| Administration | 1,322,984 | 90,343 | | 1,867 | 1,415,194 |
| Fiscal | 362,380 | | 1,495 | 9,890 | 373,765 |
| Operations and maintenance | 1,164,555 | 521 | | 137,329 | 1,302,405 |
| Pupil transportation. | 790,142 | 1,643 | | 69,990 | 861,775 |
| Central | 32,152 | 15,000 | | | 47,152 |
| Community services | | 3,014 | | | 3,014 |
| Extracurricular activities | 493,348 | 200,971 | | 15,751 | 710,070 |
| Facilities services | | | | 37,757 | 37,757 |
| Debt service: | | | | | |
| Principal retirement | | | 295,000 | | 295,000 |
| Interest and fiscal charges | 126,617 | | 34,182 | | 160,799 |
| Total expenditures | 14,816,316 | 725,542 | 330,677 | 776,144 | 16,648,679 |
| Excess (deficiency) of revenues over (under) expenditures. | 1,605,433 | 320 | (54,469) | (130,707) | 1,420,577 |
| Other financing sources (uses): | | | | | |
| Proceeds from sale of assets | 2,493 | | | 11,650 | 14,143 |
| Operating transfer in | | | | 25,628 | 25,628 |
| Operating transfer (out). | | | (25,628) | | (25,628) |
| Total other financing sources (uses) | 2,493 | | (25,628) | 37,278 | 14,143 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) . | 1,607,926 | 320 | (80,097) | (93,429) | 1,434,720 |
| Fund balance (Deficit), July 1 | (1,318,569) | 83,972 | 90,980 | 51,383 | (1,092,234) |
| Increase in reserve for inventory. | 605 | | | | 605 |
| Fund balance (Deficit), June 30 | \$289,962 | \$84,292 | \$10,883 | (\$42,046) | \$343,091 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | General Fund | | | Special Revenue | | | Debt Service | | | Capital Projects | | | Total (Memorandum only) | | |
|--|----------------|-------------|-----------------------------------|-----------------|----------|-----------------------------------|----------------|-----------|-----------------------------------|------------------|-------------|-----------------------------------|-------------------------|--------|-----------------------------------|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| | | | | | | | | | | | | | | | |
| Revenues: | | | | | | | | | | | | | | | |
| From local sources: | | | | | | | | | | | | | | | |
| Taxes..... | \$8,388,569 | \$7,636,049 | (\$752,520) | | \$92,438 | (\$12,869) | \$638,408 | \$539,663 | (\$98,745) | \$9,132,284 | \$8,268,150 | (\$864,134) | | | |
| Tuition..... | 85,886 | 92,301 | 6,415 | | | | 85,886 | | | 85,886 | 92,301 | 6,415 | | | |
| Earnings on investments..... | 216,683 | 232,869 | 16,186 | | | | | | | 232,869 | 16,186 | | | | |
| Other local revenues..... | 89,176 | 95,838 | 6,662 | \$0 | | | 165,827 | 225,167 | 59,340 | 544,823 | 610,825 | 66,002 | | | |
| Intergovernmental - State..... | 7,710,504 | 8,286,478 | 575,974 | 0 | 12,869 | 12,869 | | | | 7,888,455 | 8,477,298 | 588,843 | | | |
| Intergovernmental - Federal..... | | | | 1 | | | | | | 258,914 | 258,914 | 1 | | | |
| Total revenues..... | 16,490,818 | 16,343,535 | (147,283) | 726,684 | 726,683 | (1) | 804,235 | 764,830 | (39,405) | 18,127,044 | 17,940,357 | (186,687) | | | |
| Expenditures: | | | | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | | | | |
| Instruction: | | | | | | | | | | | | | | | |
| Regular..... | 7,722,993 | 7,708,006 | 14,987 | 112,382 | 111,855 | 527 | 401,697 | 494,556 | (92,859) | 8,237,072 | 8,314,417 | (77,345) | | | |
| Special..... | 1,026,646 | 1,022,801 | 3,845 | 80,446 | 78,637 | 1,809 | 1,137 | 1,400 | (263) | 1,108,229 | 1,102,838 | 5,391 | | | |
| Other..... | 265,262 | 220,915 | 44,347 | | | | | | | 265,262 | 220,915 | 44,347 | | | |
| Support services: | | | | | | | | | | | | | | | |
| Pupil..... | 678,833 | 674,730 | 4,103 | 11,215 | 11,331 | (116) | 402 | 495 | (93) | 690,450 | 686,556 | 3,894 | | | |
| Instructional staff..... | 868,166 | 847,560 | 20,606 | 268,493 | 230,808 | 37,685 | 24,240 | 15,947 | 8,293 | 1,160,899 | 1,094,315 | 66,584 | | | |
| Board of Education..... | 2,630 | 2,626 | 4 | | | | | | | 2,630 | 2,626 | 4 | | | |
| Administration..... | 1,284,352 | 1,282,245 | 2,107 | 91,945 | 91,890 | 55 | 1,516 | 1,867 | (351) | 1,377,813 | 1,376,002 | 1,811 | | | |
| Fiscal..... | 383,596 | 383,082 | 514 | | | | 8,324 | 10,248 | (1,924) | 393,620 | 395,030 | (1,410) | | | |
| Operations and maintenance..... | 1,296,863 | 1,285,610 | 11,253 | 516 | 521 | (5) | 246,862 | 143,196 | 103,666 | 1,544,241 | 1,429,327 | 114,914 | | | |
| Pupil transportation..... | 940,637 | 939,077 | 1,560 | 1,626 | 1,643 | (17) | 56,849 | 69,990 | (13,141) | 999,112 | 1,010,710 | (11,598) | | | |
| Central..... | 33,742 | 33,697 | 45 | 14,846 | 15,000 | (154) | 3,645 | 4,487 | (842) | 52,233 | 53,184 | (951) | | | |
| Community Services..... | | | | 2,983 | 3,014 | (31) | | | | 2,983 | 3,014 | (31) | | | |
| Extracurricular activities..... | 486,614 | 485,962 | 652 | 207,349 | 205,415 | 1,934 | 48,571 | 15,751 | 32,820 | 742,534 | 707,128 | 35,406 | | | |
| Facilities services..... | | | | | | | 30,668 | 37,758 | (7,090) | 30,668 | 37,758 | (7,090) | | | |
| Debt service: | | | | | | | | | | | | | | | |
| Principal retirement..... | 1,950,613 | 1,948,000 | 2,613 | | | | 150,000 | 150,000 | 0 | 80,593 | 99,224 | (18,631) | | | |
| Interest and fiscal charges..... | 143,009 | 142,817 | 192 | | | | 4,031 | 4,031 | 0 | 11,332 | 13,951 | (2,619) | | | |
| Total expenditures..... | 17,083,956 | 16,977,128 | 106,828 | 791,801 | 750,114 | 41,687 | 915,836 | 908,870 | 6,966 | 18,947,324 | 18,791,843 | 155,481 | | | |
| Excess of revenues over (under) expenditures..... | (593,138) | (633,593) | (40,455) | (65,117) | (23,429) | 41,688 | (111,601) | (144,040) | (32,439) | (820,280) | (851,486) | (31,206) | | | |
| Other financing sources (uses): | | | | | | | | | | | | | | | |
| Refund of prior year's expenditures..... | 207,896 | 223,426 | 15,530 | | | | 319 | 434 | 115 | 208,215 | 223,860 | 15,645 | | | |
| Refund of prior year's (receipts)..... | (95) | (95) | 0 | | | | | | | (95) | (95) | 0 | | | |
| Operating transfers in..... | | | | | | | 18,875 | 25,628 | 6,753 | 18,875 | 25,628 | 6,753 | | | |
| Operating transfers (out)..... | | | | | | | (25,628) | (25,628) | 0 | (25,628) | (25,628) | 0 | | | |
| Sale of Assets..... | 2,319 | 2,493 | 174 | | | | 8,580 | 11,650 | 3,070 | 10,899 | 14,143 | 3,244 | | | |
| Proceeds of notes..... | 1,761,422 | 1,893,000 | 131,578 | | | | 82,347 | 111,814 | 29,467 | 1,843,769 | 2,004,814 | 161,045 | | | |
| Total other financing sources (uses)..... | 1,971,542 | 2,118,824 | 147,282 | | | | (25,628) | (25,628) | 39,405 | 1,101,121 | 149,526 | 186,687 | | | |
| Excess of revenues and other financing sources over (under) expenditures and other financing (uses)..... | 1,378,404 | 1,485,231 | 106,827 | (65,117) | (23,429) | 41,688 | (1,480) | 5,486 | 6,966 | 1,235,755 | 1,391,236 | 155,481 | | | |
| Fund balances, July 1..... | 122,716 | 122,716 | 0 | 56,928 | 56,928 | 0 | 76,052 | 76,052 | 0 | 570 | 570 | 0 | | | |
| Prior year encumbrances appropriated..... | 84,050 | 84,050 | 0 | 49,392 | 49,392 | 0 | 6,336 | 6,336 | 0 | 139,778 | 139,778 | 0 | | | |
| Fund balances (Deficit), June 30..... | \$1,585,170 | \$1,691,997 | \$106,827 | \$41,203 | \$82,891 | \$41,688 | \$0 | \$12,392 | \$6,966 | \$1,631,799 | \$1,787,280 | \$155,481 | | | |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/(ACCUMULATED DEFICIT)
 ALL PROPRIETARY FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | Proprietary Fund Types | | Total (Memorandum Only) |
|---|------------------------|---------------------|-------------------------------|
| | Enterprise | Internal Service | |
| Operating revenues: | | | |
| Sales/charges for services | \$597,312 | \$1,604,186 | \$2,201,498 |
| Tuition | 1,560 | | 1,560 |
| Other operating revenues | | 5,275 | 5,275 |
| | <u>598,872</u> | <u>1,609,461</u> | <u>2,208,333</u> |
| Total operating revenues | | | |
| Operating expenses: | | | |
| Personal services | 412,490 | | 412,490 |
| Contract services | 5,068 | 192,556 | 197,624 |
| Materials and supplies | 286,172 | | 286,172 |
| Depreciation | 5,679 | | 5,679 |
| Claims expense | | 1,534,180 | 1,534,180 |
| | <u>709,409</u> | <u>1,726,736</u> | <u>2,436,145</u> |
| Total operating expenses | | | |
| Operating loss | <u>(110,537)</u> | <u>(117,275)</u> | <u>(227,812)</u> |
| Nonoperating revenues: | | | |
| Operating grants | 101,697 | | 101,697 |
| Federal commodities | 67,456 | | 67,456 |
| Interest revenue | 1,985 | 1,987 | 3,972 |
| | <u>171,138</u> | <u>1,987</u> | <u>173,125</u> |
| Total nonoperating revenues | | | |
| Net income (loss) | 60,601 | (115,288) | (54,687) |
| Retained earnings/(Accumulated deficit) July 1. | <u>(63,850)</u> | <u>106,005</u> | <u>42,155</u> |
| Accumulated deficit June 30. | <u>(\$3,249)</u> | <u>(\$9,283)</u> | <u>(\$12,532)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

| | Proprietary Fund Types | | Total (Memorandum Only) |
|--|------------------------|---------------------|-------------------------------|
| | Enterprise | Internal Service | |
| Cash flows from operating activities: | | | |
| Cash received from sales/service charges | \$597,312 | \$1,604,186 | \$2,201,498 |
| Cash received from tuition and fees | 1,560 | | 1,560 |
| Cash payments for personal services. | (423,756) | | (423,756) |
| Cash payments for contract services | (5,068) | (192,556) | (197,624) |
| Cash payments supplies and materials | (219,721) | | (219,721) |
| Cash payments for claims expenses | | (1,320,071) | (1,320,071) |
| Net cash provided by (used in) operating activities. | (49,673) | 91,559 | 41,886 |
| Cash flows from noncapital financing activities: | | | |
| Cash received from operating grants | 86,516 | | 86,516 |
| Net cash provided by noncapital financing activities | 86,516 | | 86,516 |
| Cash flows from capital and related financing activities: | | | |
| Acquisition of capital assets | (15,080) | | (15,080) |
| Net cash used in capital and related financing activities | (15,080) | | (15,080) |
| Cash flows from investing activities: | | | |
| Interest received. | 1,985 | 1,987 | 3,972 |
| Net cash provided by investing activities | 1,985 | 1,987 | 3,972 |
| Net increase in cash and cash equivalents. | 23,748 | 93,546 | 117,294 |
| Cash and cash equivalents at beginning of year | 95,949 | 110,384 | 206,333 |
| Cash and cash equivalents at end of year. | \$119,697 | \$203,930 | \$323,627 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | | |
| Operating loss | (\$110,537) | (\$117,275) | (\$227,812) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | | |
| Depreciation | 5,679 | | 5,679 |
| Federal donated commodities | 67,456 | | 67,456 |
| Changes in assets and liabilities: | | | |
| Increase in supplies inventory. | (5,654) | | (5,654) |
| Increase in accounts receivable | | (5,275) | (5,275) |
| Increase in accrued wages & benefits. | 8,784 | | 8,784 |
| Increase in compensated absences payable | (4,818) | | (4,818) |
| Decrease in pension obligation payable. | (15,232) | | (15,232) |
| Increase in claims payable. | | 214,109 | 214,109 |
| Increase in deferred revenue. | 4,649 | | 4,649 |
| Net cash provided by (used in) operating activities. | (\$49,673) | \$91,559 | \$41,886 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 166th largest by total enrollment among the 682 public and community school districts in the State. It currently operates 5 instructional facilities. The District employs 117 non-certified and 180 certified employees to provide services to approximately 2,863 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or 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 for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

JOINT VENTURE WITHOUT EQUITY INTEREST:

Heartland Council of Governments (Heartland)

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

JOINTLY GOVERNED ORGANIZATION:

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL:

The District is also a member of the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (an insurance purchasing pool), described in Note 11.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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, where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - The internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual (See Note 3C.).

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, grants, and accounts (student fees and rent). Property taxes measurable as of June 30, 2001, and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2002 operations, have been recorded as deferred revenues (except for that portion which is available from the County Auditor as an advance as of June 30).

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2001 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statement presents comparisons at the fund and function level of expenditures as elected by the District Treasurer.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation 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 2001, in the following amounts:

| | <u>Increase</u> |
|------------------------|------------------|
| Special Revenue Funds | \$ 95,655 |
| Debt Service Fund | 21,359 |
| Capital Projects Funds | 147,000 |
| Enterprise Funds | 59,500 |
| Internal Service Fund | <u>150,000</u> |
| Total | <u>\$473,514</u> |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end, not recognized as accounts payable, appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses encumbrances outstanding for enterprise funds at fiscal year-end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 combined balance sheet.

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

Investments are reported at cost, except for investments in STAR Ohio, which are reported at fair value. Fair value is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

Under existing Ohio statute, all investment earnings are assigned to the general fund except for those specifically related to the food service and employee benefits self-insurance fund. Interest revenue credited to the general fund during fiscal 2001 amounted to \$233,266, which includes \$67,759 assigned from other District funds.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

F. Materials and Supplies Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Life (years)</u> |
|-----------------------------------|---------------------|
| Buildings | 25 - 50 |
| Furniture, fixtures and equipment | 10 - 20 |
| Vehicles | 4 - 6 |

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as nonoperating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

| | |
|--------------------------------|--|
| <u>Entitlements</u> | <u>Non-Reimbursable Grants - (Continued)</u> |
| <u>General Fund</u> | <u>Special Revenue Funds - (Continued)</u> |
| State Foundation Program | Management Information Systems |
| State Property Tax Relief | Title VI-B |
| <u>Debt Service Fund</u> | Title I |
| State Property Tax Relief | Title VI |
| <u>Capital Projects Fund</u> | Ohio Reads |
| State Property Tax Relief | Telecommunications |
| <u>Non-Reimbursable Grants</u> | Title VI-R |
| <u>Special Revenue Funds</u> | Data Communication |
| Auxiliary Services | SchoolNet Professional Development |
| Teacher Development | Eisenhower Professional Development |
| Safe and Drug-Free Schools | Life Transitions for Continuous Improvement |
| | <u>Capital Projects Fund</u> |
| | SchoolNet |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

Reimbursable Grants

General Fund

School Bus Purchases
Driver Education

Proprietary Funds

National School Lunch Program
Government Donated Commodities (Food Distribution)

Grants and entitlements amounted to over 45% of the District's operating revenue during the 2001 fiscal year.

I. Interfund Transactions

Transactions between funds during the course of normal operations may occur. The most significant may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund, which provides a service records revenue and the fund, which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2001 is presented in Note 5.

J. Compensated Absences

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

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

Accumulated vacation and severance liability of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. The vacation and severance liability for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

K. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, supplies inventory, tax revenue unavailable for appropriation, and BWC refunds. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

M. Statutory Reserves

The District is required by state law to set aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Improvements</u> | <u>Budget Stabilization</u> | <u>BWC Refunds</u> |
|---|--------------------|---------------------------------|---------------------------------|------------------------|
| Set-aside cash balance as of July 1, 2000 | \$(173,709) | \$(177,841) | \$ 81,351 | \$ 0 |
| Current year set-aside requirement | 361,543 | 361,543 | | |
| Reclassification of budget stabilization | | | (81,351) | 81,351 |
| Qualifying disbursements | <u>(653,666)</u> | <u>(773,185)</u> | | |
| Total | <u>(465,832)</u> | <u>(589,483)</u> | <u>0</u> | <u>81,351</u> |
| Balance carried forward to FY 2002 | <u>\$(465,832)</u> | <u>\$(589,483)</u> | <u>\$ 0</u> | <u>\$81,351</u> |

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. The entire balance at June 30, 2000, represents BWC refunds that were received prior to April 10, 2001, and 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 capital acquisition reserve.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero in the textbooks and capital acquisition reserves. These extra amounts may be used to reduce the set-aside requirements of future years.

A schedule of the restricted assets at June 30, 2001 follows:

| | |
|-----------------------------------|-----------------|
| Amount restricted for BWC refunds | <u>\$81,351</u> |
| Total restricted assets | <u>\$81,351</u> |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

N. Statement of Cash Flows

The District's Financial Statements have been prepared in accordance with GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District has presented a statement of cash flows for its proprietary funds.

O. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

P. Estimates

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

Q. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents set-aside to purchase instructional materials and for BWC refunds. Reservations of fund balance have also been recorded. See statutory reserves in Note 2.M.

R. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

B. Deficit Fund Balances/Retained Earnings

Fund balances/retained earnings at June 30, 2001, included the following individual fund deficits:

| | <u>Deficit Balances</u> |
|------------------------------|-------------------------|
| <u>Special Revenue Funds</u> | |
| Ohio Reads | \$ (59) |
| Teacher Development | (28) |
| <u>Capital Projects Fund</u> | |
| Permanent Improvement | (62,665) |
| <u>Enterprise Fund</u> | |
| Food Service | (5,083) |
| <u>Internal Service Fund</u> | |
| Employee Self-Insurance | (9,283) |

The deficit fund balances in the teacher development, and Ohio Reads special revenue funds are a result of accruing wages, benefits, and pension obligations in accordance with GAAP. The permanent improvement capital projects fund deficit is a result of recording notes payable during fiscal year 2002 and will be eliminated by tax revenue not recognized at June 30. These deficits will be eliminated by user charges and intergovernmental revenue not recognized at June 30.

The deficit retained earnings in the food service enterprise fund is a result of accruing wages, benefits, and pension obligations in accordance with GAAP. This deficit will be eliminated by user charges and intergovernmental revenues not recognized at June 30. The employee self-insurance deficit retained earnings is a result of recording claims payable during fiscal year 2002 and will be eliminated by user charges not recognized at June 30. These fund complied with state statute which does not allow a cash basis fund deficit at year-end.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Agency Fund

The following are accruals for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

| | |
|---------------------|-----|
| Accounts receivable | \$6 |
|---------------------|-----|

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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 the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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;

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Cash with Fiscal Agent: At year-end, \$50,014 was on deposit with the District’s fiscal agent for debt service and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as “Equity in pooled cash and cash equivalents”.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year-end, the carrying amount of the District’s deposits was \$(121,041) and the bank balance was \$426,101. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the District’s bank accounts. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$326,101 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the district held to a successful claim by the FDIC.

Investments: The District’s investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District’s name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | Fair Value |
|--------------------------------|--------------------|
| Not Subject to Categorization: | |
| Investment in State | |
| Treasurer’s Investment Pool | <u>\$2,597,814</u> |
| Total Investments | <u>\$2,597,814</u> |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, Reporting Cash Flows of Proprietary Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Equity in pooled cash and cash equivalents</u> | <u>Investments</u> |
|---|---|--------------------|
| GASB Statement No. 9 Investments of the Cash Management Pool: | \$ 2,426,759 | \$ 0 |
| State Treasurer's Investment Pool | (2,597,814) | 2,597,814 |
| Cash with fiscal agent | <u>50,014</u> | <u> </u> |
| GASB Statement No. 3 | <u>\$ (121,041)</u> | <u>\$2,597,814</u> |

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2001:

| | <u>Transfer In</u> | <u>Transfer (Out)</u> |
|------------------------------|--------------------|-----------------------|
| Debt Service Fund | | \$(25,628) |
| <u>Capital Projects Fund</u> | | |
| Permanent Improvement | <u>\$25,628</u> | <u> </u> |
| Totals | <u>\$25,628</u> | <u>\$(25,628)</u> |

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the District.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 6 - PROPERTY TAXES - (Continued)

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value, and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue, which would otherwise have been collected.

The assessed values upon which the fiscal year 2001 taxes were collected are as follows:

| | 2000 Second-Half Collections | | 2001 First-Half Collections | |
|---|---------------------------------|---------------|--------------------------------|---------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$250,686,640 | 90.16 | \$254,431,130 | 90.27 |
| Public Utility Personal | 10,764,430 | 3.87 | 10,507,600 | 3.73 |
| Tangible Personal Property | 16,610,395 | 5.97 | 16,910,831 | 6.00 |
| | <u>\$278,061,465</u> | <u>100.00</u> | <u>\$281,849,561</u> | <u>100.00</u> |

Tax rate per \$1,000 of
assessed valuation:

| | | |
|------------------------|---------|---------|
| Operations | \$38.60 | \$43.20 |
| Debt Service | .75 | |
| Permanent Improvements | 2.70 | 2.70 |

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 30.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property taxes 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.

The Richland and Morrow County Treasurers collect property tax on behalf of the District. The Richland and Morrow County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2001 totaled \$451,640 in the general fund, \$32,153 in the permanent improvement fund, and \$10,883 in the debt service fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001, consisted of taxes, accrued interest, accounts (rent and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables follows:

| | <u>Amounts</u> |
|----------------------------------|----------------|
| <u>General Fund</u> | |
| Taxes - current and delinquent | \$7,360,931 |
| Accounts | 143,269 |
| Accrued interest | 617 |
| <u>Debt Service Fund</u> | |
| Taxes - current and delinquent | 177,372 |
| <u>Capital Projects Fund</u> | |
| Taxes - current and delinquent | 524,054 |
| <u>Enterprise Fund</u> | |
| Due from other governments | 15,181 |
| <u>Internal Service Fund</u> | |
| Accounts | 5,275 |

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed asset account group during the fiscal year follows:

| | <u>Balance</u> | | <u>Deletions</u> | <u>Balance</u> |
|------------------------|---------------------|------------------|-------------------|----------------------|
| | <u>July 1, 2000</u> | <u>Additions</u> | | <u>June 30, 2001</u> |
| Land/Improvements | \$ 184,026 | | | \$ 184,026 |
| Buildings/Improvements | 7,630,494 | \$ 725 | | 7,631,219 |
| Furniture/Equipment | 3,600,618 | 450,364 | \$(337,750) | 3,713,232 |
| Vehicles | <u>1,077,825</u> | <u>171,846</u> | <u>(167,656)</u> | <u>1,082,015</u> |
| Total | <u>\$12,492,963</u> | <u>\$622,935</u> | <u>\$ 505,406</u> | <u>\$12,610,492</u> |

A summary of the enterprise funds' fixed assets at June 30, 2001 follows:

| | |
|--------------------------------|------------------|
| Furniture and equipment | \$ 183,573 |
| Less: accumulated depreciation | <u>(145,671)</u> |
| Net fixed assets | <u>\$ 37,902</u> |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 9 - LONG-TERM DEBT

A. The following is a description of the District's notes and bond outstanding as of June 30, 2001:

| <u>Purpose</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Notes/ Bonds Maturity Date</u> | <u>Outstanding June 30, 2000</u> | <u>Notes/ Bonds Retired in 2001</u> | <u>Outstanding June 30, 2001</u> |
|---|--------------------------|-----------------------|---|--------------------------------------|---|--------------------------------------|
| Energy Conservation Notes | 5.4% | 08/15/94 | 08/01/04 | \$ 300,000 | \$ (55,000) | \$245,000 |
| Energy Conservation Notes | 5.84% | 07/15/96 | 09/15/06 | 770,000 | (90,000) | 680,000 |
| Building Addition General Obligation Bond | 5.375% | 02/01/77 | 12/01/00 | <u>150,000</u> | <u>(150,000)</u> | <u>0</u> |
| Total | | | | <u>\$1,220,000</u> | <u>\$(295,000)</u> | <u>\$925,000</u> |

Energy Conservation Notes - On August 15, 1994, the District issued \$550,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a 10-year period with final maturity during fiscal year 2005. The notes will be retired from the debt service fund.

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

Building Addition General Obligation Bonds - On February 1, 1977, the District issued voted general obligation bonds for the purpose of an addition and improvement to buildings. The bonds were issued for a 17-year period with final maturity at December 1, 2000. The bonds were retired from the debt service fund during the fiscal year.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 9 - LONG-TERM DEBT - (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for energy conservation notes:

| <u>Year Ending June 30</u> | <u>Principal on Notes</u> | <u>Interest on Notes</u> | <u>Total</u> |
|--------------------------------|-------------------------------|------------------------------|--------------------|
| 2002 | \$155,000 | \$ 48,945 | \$ 203,945 |
| 2003 | 165,000 | 39,890 | 204,890 |
| 2004 | 170,000 | 30,358 | 200,358 |
| 2005 | 185,000 | 20,223 | 205,223 |
| 2006 | 120,000 | 11,370 | 131,370 |
| 2007 | <u>130,000</u> | <u>3,900</u> | <u>133,900</u> |
| Total | <u>\$925,000</u> | <u>\$154,686</u> | <u>\$1,079,686</u> |

C. During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term obligations account groups. Compensated absences are reported net of actual increases and decreases due to the practicality of determining these value. Compensated absences and the pension obligation payable will ultimately be paid from the fund from which the employee is paid.

| | <u>Balance June 30, 2000</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance June 30, 2001</u> |
|--|----------------------------------|-------------------|--------------------|----------------------------------|
| Compensated absences | \$1,669,806 | \$134,575 | \$(183,927) | \$1,620,454 |
| Pension obligation payable | 81,132 | 103,567 | (81,132) | 103,567 |
| School Building Energy Conservation notes payable | 1,070,000 | | (145,000) | 925,000 |
| General obligation bond payable | <u>150,000</u> | <u> </u> | <u>(150,000)</u> | <u> 0</u> |
| Total | <u>\$2,970,938</u> | <u>\$238,142</u> | <u>\$(560,059)</u> | <u>\$2,649,021</u> |

D. 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 9 - LONG-TERM DEBT - (Continued)

The effects of these debt limitations at June 30, 2001, are a voted debt margin of \$25,377,343 (including available funds of \$10,883), an unvoted debt margin of \$281,850, and an unvoted energy conservation debt margin of \$1,611,646.

NOTE 10 - NOTES PAYABLE

During the fiscal year, the District issued and subsequently repaid a tax anticipation note. Activity for this tax anticipation note has been reported in the general fund, which received the proceeds upon issuance. The District also issued general obligation notes during the fiscal year for the purchase of musical instruments. Activity for this note has been reported in the permanent improvement fund, which received the proceeds upon issuance.

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance June 30, 2000</u> | <u>Issued in 2001</u> | <u>Retired in 2001</u> | <u>Balance June 30, 2001</u> |
|-------------------------|--------------------------|--------------------------|----------------------------------|---------------------------|----------------------------|----------------------------------|
| Tax anticipation note | 5.13% | 06/30/01 | \$ 0 | \$1,893,000 | \$(1,893,000) | \$ 0 |
| General obligation note | 6.00% | 09/01/05 | <u>0</u> | <u>111,814</u> | <u>(9,224)</u> | <u>102,590</u> |
| Total | | | <u>\$ 0</u> | <u>\$2,004,814</u> | <u>\$(1,902,224)</u> | <u>\$102,590</u> |

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. Settled claims have not exceeded commercial coverage in any of the past three years.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 11 - RISK MANAGEMENT - (Continued)

The District had the following coverages in effect for fiscal year 2001:

| <u>Coverage</u> | <u>Limits of Coverage</u> | <u>Deductible</u> |
|-----------------------|-------------------------------|-------------------|
| General liability: | | |
| Each occurrence | \$ 1,000,000 | \$ 0 |
| Aggregate | 5,000,000 | 0 |
| Fleet: | | |
| Comprehensive | 1,000,000 | 100 |
| Collision | 1,000,000 | 250 |
| Building and contents | 35,835,389 | 500 |

Settled claims have not exceeded this commercial coverage in any of the past three years.

There has not been a significant reduction in insurance from the prior 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. The claims liability of \$218,488 reported in the internal service fund at June 30, 2001, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, as amended by GASB Statement No. 30, Risk Financing Omnibus, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be reported. Changes in claims activity for the current and past two fiscal years are as follows:

| | <u>Balance Beginning of Year</u> | <u>Current Year Claims</u> | <u>Claims Payments</u> | <u>Balance at End of Year</u> |
|------|--|--------------------------------|------------------------|-----------------------------------|
| 2001 | \$ 4,379 | \$1,534,180 | \$(1,320,071) | \$218,488 |
| 2000 | 255,041 | 991,941 | (1,242,603) | 4,379 |
| 1999 | 122,189 | 1,287,548 | (1,154,696) | 255,041 |

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 11 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

C. Life Insurance

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

D. OSBA Group Workers Compensation Rating Program

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2001.

| | <u>Food Service</u> | <u>Adult Education</u> | <u>Total</u> |
|-----------------------------|-------------------------|----------------------------|--------------|
| Operating revenues | \$ 597,312 | \$1,560 | \$ 598,872 |
| Operating expenses | | | |
| before depreciation | 702,711 | 1,019 | 703,730 |
| Depreciation expense | 5,679 | | 5,679 |
| Operating income (loss) | (111,078) | 541 | (110,537) |
| Nonoperating revenues: | | | |
| Operating grants | 101,697 | | 101,697 |
| Federal donated commodities | 67,456 | | 67,456 |
| Net income | 60,060 | 541 | 60,601 |
| Net working capital | 32,061 | 1,834 | 33,895 |
| Total assets | 204,304 | 1,840 | 206,144 |
| Long-term liabilities | | | |
| payable from fund revenues | 75,046 | | 75,046 |
| Total fund equity | (5,083) | 1,834 | (3,249) |
| Encumbrances outstanding | | | |
| as of June 30, 2001 | 3,836 | | 3,836 |

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$280,889, \$294,422, and \$317,162, respectively; 46% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$150,744, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. STATE TEACHERS RETIREMENT SYSTEM

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,092,012, \$1,259,126, and \$1,141,171, respectively; 83% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$183,540 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, three members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$351,004 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000, (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$191,136 during the 2001 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the GAAP basis for the governmental funds are as follows:

| | Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses | | | |
|--|--|----------------------------|-------------------------|-----------------------------|
| | Governmental Fund Types | | | |
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
| Budget basis | \$ 1,485,231 | \$(23,429) | \$(76,052) | \$ 5,486 |
| Net adjustment for revenue accruals | 78,214 | (823) | 170,901 | (119,393) |
| Net adjustment for expenditure accruals | 1,913,502 | 16,849 | (174,946) | (95,549) |
| Net adjustment for other sources/uses | (2,116,331) | | | (112,248) |
| Adjustment for encumbrances | <u>247,310</u> | <u>7,723</u> | <u> </u> | <u>228,275</u> |
| GAAP basis | <u>\$ 1,607,926</u> | <u>\$ 320</u> | <u>\$(80,097)</u> | <u>\$ (93,429)</u> |

NOTE 16 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

The District is party to legal proceedings. The District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 29, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine the effect, if any, this decision will have on its future State funding and on its financial operations.

SUPPLEMENTAL DATA

**LEXINGTON LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (D) CASH FEDERAL RECEIPTS | OTHER FEDERAL RECEIPTS | (D) CASH FEDERAL DISBURSEMENTS | OTHER FEDERAL DISBURSEMENTS |
|---|----------------|---------------------------------|------------------------------------|------------------------------|---|-----------------------------------|
| U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| Nutrition Cluster: | | | | | | |
| (A) (B) Food Distribution | 10.550 | N/A | | \$75,075 | | \$67,456 |
| (A) (C) National School Lunch Program | 10.555 | N/A | \$83,127 | | \$83,127 | |
| Total U. S. Department of Agriculture and Nutrition Cluster | | | <u>83,127</u> | <u>75,075</u> | <u>83,127</u> | <u>67,456</u> |
| U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | 049437-C1-S1 01 | 66,207 | | 55,869 | |
| Title VI-B - Special Education | 84.027 | 049437-6B-SF 99P | 0 | | 9,059 | |
| Title VI-B - Special Education | 84.027 | 049437-6B-SF 00P | 117,390 | | 116,848 | |
| Total Title VI-B | | | <u>117,390</u> | | <u>125,907</u> | |
| (E) Life Transitions for Continuous Improvement | 84.158A | N/A | 0 | | 408 | |
| Safe and Drug-Free Schools Grants | 84.186 | 049437-DR-S1 01 | 11,983 | | 11,983 | |
| Eisenhower Professional Development Grant | 84.281 | 049437-MS-A3-01 | 71 | | 71 | |
| Eisenhower Professional Development Grant | 84.281 | 049437-MS-S1-00 | 3,125 | | 6,043 | |
| Eisenhower Professional Development Grant | 84.281 | 049437-MS-S1-01 | 6,835 | | 1,355 | |
| Total Eisenhower Professional Development Grant | | | <u>10,031</u> | | <u>7,469</u> | |
| Title VI - Innovative Educational Program Strategies | 84.298 | 049437-C2-S1-00 | 0 | | 2,309 | |
| Title VI - Innovative Educational Program Strategies | 84.298 | 049437-C2-S1-01 | 14,301 | | 8,941 | |
| Total Title VI - Innovative Educational Program Strategies | | | <u>14,301</u> | | <u>11,250</u> | |
| Title VI-R - Classroom Size Reduction Grant | 84.340 | 049437-CR-S1-00 | 15,355 | | 21,935 | |
| Title VI-R - Classroom Size Reduction Grant | 84.340 | 049437-CR-S1-01 | 23,718 | | 14,602 | |
| Total Title VI-R - Classroom Size Reduction Grant | | | <u>39,073</u> | | <u>36,537</u> | |
| Total U. S. Department of Education | | | <u>258,985</u> | | <u>249,423</u> | |
| Total Federal Financial Assistance | | | <u>\$342,112</u> | <u>\$75,075</u> | <u>\$332,550</u> | <u>\$67,456</u> |

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Comingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) This schedule was prepared on the cash basis of accounting.
- (E) Passed through North Central Ohio Special Education Regional Resource Center.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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

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

We have audited the general purpose financial statements of Lexington Local School District as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated November 29, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether Lexington Local School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Lexington Local School District in a separate letter dated November 29, 2001.

Board of Education
Lexington Local School District

Internal Control Over Financial Reporting

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

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

Trimble, Julian & Grube, Inc.
November 29, 2001

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

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

Compliance

We have audited the compliance of Lexington Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2001. Lexington Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Lexington Local School District's management. Our responsibility is to express an opinion on Lexington Local School District's compliance based on our audit.

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

Board of Education
Lexington Local School District

In our opinion, Lexington Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lexington Local School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings as item 2001-49437-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

Trimble, Julian & Grube, Inc.
November 29, 2001

**LEXINGTON LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY
 JUNE 30, 2001**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------------|---|-------------|
| <i>(d)(1)(i)</i> | <i>Type of Financial Statement Opinion</i> | Unqualified |
| <i>(d)(1)(ii)</i> | <i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(ii)</i> | <i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iii)</i> | <i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any material internal control weakness conditions reported for major federal programs?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i> | Yes |
| <i>(d)(1)(v)</i> | <i>Type of Major Programs' Compliance Opinion</i> | Unqualified |
| <i>(d)(1)(vi)</i> | <i>Are there any reportable findings under § .510?</i> | Yes |

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
JUNE 30, 2001**

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

1. SUMMARY OF AUDITOR'S RESULTS - (Continued)

| | | |
|-----------------------|--|---|
| <i>(d) (1) (vii)</i> | <i>Major Program</i> | Nutrition Cluster: Food Distribution, CFDA #10.550; National School Lunch, CFDA #10.555 |
| <i>(d) (1) (viii)</i> | <i>Dollar Threshold: Type A/B Programs</i> | Type A: >\$300,000 Type B: all others |
| <i>(d) (1) (ix)</i> | <i>Low Risk Auditee?</i> | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|--|---|
| 1. Verification of Free/Reduced Applications | |
| Finding Number | 2001-49437-001 |
| CFDA Title and Number | Nutrition Grant Cluster: Food Distribution, CFDA #10.550; National School Lunch Program, CFDA #10.555 |
| Federal Award Number/Year | LL-P1-00, LL-P1-01 |
| Federal Agency | U.S. Department of Agricultural |
| Pass-Through Agency | Ohio Department of Agriculture |

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
JUNE 30, 2001**

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - (Continued)

INTERNAL CONTROLS-REPORTABLE CONDITION

In part, the Nutrition Grant Cluster requires participating District's to verify a sample of free and reduced lunch applications. The verification procedure determines if family income amounts reported on the initial student applications were accurate. In addition, upon review, the District will complete the verification summary report detailing results.

Upon receipt of income verification documentation, the Assistant Superintendent was not recalculating and agreeing amounts to the initial application. In addition, the Assistant Superintendent was not determining if a students status should be changed from one of the three categories (free/reduced/paid) to another.

Not properly reviewing, recalculating, and verifying income documentation selected may result in a student being placed in an inappropriate category. This may result in the District losing potential food service receipts and/or a low income student not receiving proper benefits.

The District's Assistant Superintendent maintains the grant guidelines and handbook; however, the verification requirements were misunderstood. The District will implement the required policies and procedures immediately.

We recommend that the District properly recalculate verification documentation and properly reclassify any student category changes. We recommend the District properly document its verification procedures and retain all supporting calculations. Further, we recommend that the District refer to the grant guidelines and handbook or contact the state Grant Director if any questions should arise.



STATE OF OHIO
OFFICE OF THE AUDITOR

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LEXINGTON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 24, 2002**