



Dave Yost • Auditor of State

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lexington Local School District
Richland County
103 Clever Lane
Lexington, Ohio 44904

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio, as of June 30, 2014, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, change in net position, governmental activities, and the General fund. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2014

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

The management's discussion and analysis of the Lexington Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2014, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- The total net cash position of the District increased \$2,164,243 or 59.64% from fiscal year 2013.
- General cash receipts accounted for \$22,033,364 or 88.20% of total governmental activities cash receipts. Program specific cash receipts accounted for \$2,946,983 or 11.80% of total governmental activities cash receipts.
- The District had \$22,816,104 in cash disbursements related to governmental activities; \$2,946,983 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$22,033,364 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had cash receipts and other financing sources of \$22,736,680 in 2014. The cash disbursements and other financing uses of the general fund, totaled \$20,661,040 in 2014. The general fund's cash balance increased \$2,075,640 from a balance of \$2,325,514 to \$4,401,154.

Using this Cash Basis Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2014?" These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

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

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

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

The statement of net position - cash basis and the statement of activities - cash basis can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund. The analysis of the District's major governmental funds begins on page 11.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, the only difference between the net position and fund cash balances or changes in net position and changes in fund cash balances results from the consolidation of the internal service fund with governmental activities on the government-wide financial statements. Cash governmental fund statements can be found on pages 17-21 of this report.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health and dental self-insurance. The basic proprietary fund financial statements can be found on pages 22-23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and an agency fund. The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-45 of this report.

Government-Wide Financial Analysis

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

The table below provides a summary of the District's net cash position at June 30, 2014 and June 30, 2013.

	Net Cash Position	
	Governmental Activities 2014	Governmental Activities 2013
	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 5,793,108	\$ 3,628,865
Total assets	<u>5,793,108</u>	<u>3,628,865</u>
<u>Net Cash Position</u>		
Restricted	200,283	215,930
Unrestricted	<u>5,592,825</u>	<u>3,412,935</u>
Total net cash position	<u>\$ 5,793,108</u>	<u>\$ 3,628,865</u>

The total net cash position of the District increased \$2,164,243 which represents a 59.64% increase from fiscal year 2013. The change in net cash position for fiscal year 2014 was an increase of \$2,164,243 compared to an increase of \$1,462,372 in fiscal year 2013.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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(Continued)**

A portion of the District's net cash position, \$200,283, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position of \$5,592,825 may be used to meet the District's ongoing obligations to citizens and creditors.

The table below shows the changes in net cash position for fiscal year 2014 and 2013:

	Change in Net Position	
	Governmental Activities	Governmental Activities
	<u>2014</u>	<u>2013</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 998,526	\$ 1,083,896
Operating grants and contributions	<u>1,948,457</u>	<u>1,862,625</u>
Total program cash receipts	<u>2,946,983</u>	<u>2,946,521</u>
General cash receipts:		
Property and other taxes	11,552,206	11,663,894
Unrestricted grants and entitlements	10,401,811	9,831,747
Investment earnings	8,334	5,745
Other	<u>71,013</u>	<u>181,466</u>
Total general cash receipts	<u>22,033,364</u>	<u>21,682,852</u>
Total cash receipts	<u>24,980,347</u>	<u>24,629,373</u>

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

	Change in Net Position (Continued)	
	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,265,242	\$ 10,533,203
Special	3,417,429	3,306,151
Other	29,633	27,916
Support services:		
Pupil	1,123,348	1,234,601
Instructional staff	752,357	612,333
Board of education	97,793	54,811
Administration	1,663,812	1,545,935
Fiscal	493,291	512,406
Business	6,227	6,492
Operations and maintenance	1,759,904	1,828,790
Pupil transportation	1,245,871	1,348,678
Central	6,376	79,542
Operation of non instructional services:		
Other non-instructional services	7,614	22,438
Food service operations	915,702	944,362
Extracurricular	957,519	965,736
Facilities acquisition and construction	73,986	58,250
Debt service:		
Principal retirement	-	79,012
Interest and fiscal charges	-	6,345
Total cash disbursements	<u>22,816,104</u>	<u>23,167,001</u>
Change in net cash assets	2,164,243	1,462,372
Net cash position at beginning of year	<u>3,628,865</u>	<u>2,166,493</u>
Net cash position at end of year	<u>\$ 5,793,108</u>	<u>\$ 3,628,865</u>

Governmental Activities

Governmental assets increased by \$2,164,243 in fiscal year 2014 from fiscal year 2013. Total governmental disbursements of \$22,816,104 were offset by program receipts of \$2,946,983 and general receipts of \$22,033,364. Program receipts supported 12.92% of the total governmental disbursements.

General cash receipts increased \$350,512 and program specific receipts in the form of operating grants and contributions increased \$85,832 in fiscal year 2014.

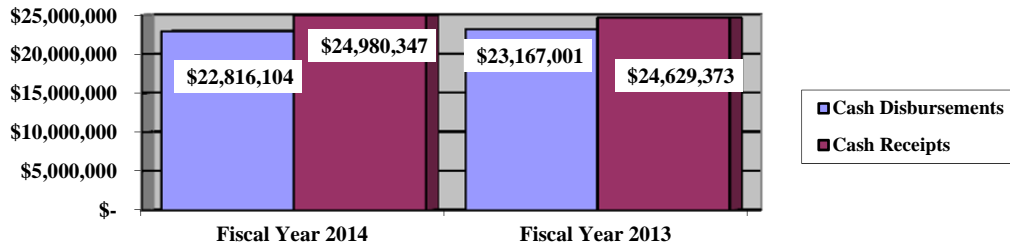
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These receipt sources represent 87.89% of total governmental receipts. Real estate property is reappraised every six years.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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(Continued)**

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2013 and 2014.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



As can be seen above, cash receipts were sufficient to cover cash disbursements in fiscal year 2014.

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

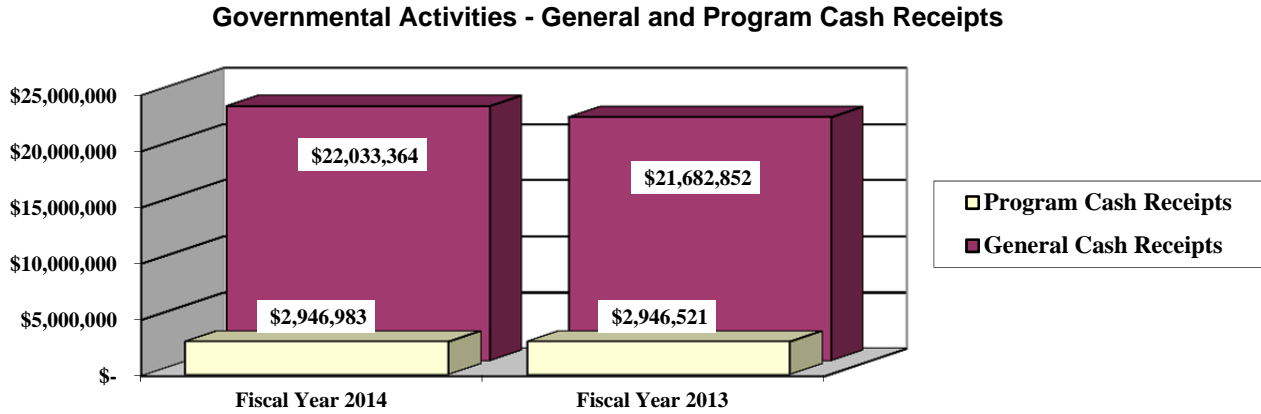
	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Cash disbursements:				
Instruction:				
Regular	\$ 10,265,242	\$ 9,991,402	\$ 10,533,203	\$ 10,189,978
Special	3,417,429	2,033,952	3,306,151	2,228,955
Vocational	-	-	-	-
Other	29,633	29,633	27,916	27,916
Support services:				
Pupil	1,123,348	976,225	1,234,601	1,036,782
Instructional staff	752,357	749,882	612,333	609,622
Board of education	97,793	97,793	54,811	54,811
Administration	1,663,812	1,611,996	1,545,935	1,500,898
Fiscal	493,291	493,291	512,406	512,406
Business	6,227	6,227	6,492	6,492
Operations and maintenance	1,759,904	1,756,941	1,828,790	1,818,909
Pupil transportation	1,245,871	1,175,416	1,348,678	1,203,349
Central	6,376	6,376	79,542	70,542
Operation of non instructional services:				
Other non-instructional services	7,614	614	22,438	22,438
Food service operations	915,702	115,769	944,362	88,252
Extracurricular	957,519	749,618	965,736	705,523
Facilities acquisition and construction	73,986	73,986	58,250	58,250
Debt service:				
Principal retirement	-	-	79,012	79,012
Interest and fiscal charges	-	-	6,345	6,345
Total	\$ 22,816,104	\$ 19,869,121	\$ 23,167,001	\$ 20,220,480

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The dependence upon general cash receipts for governmental activities is apparent; with 87.08% of cash disbursements supported through taxes and other general cash receipts during 2014.

The graph below presents the District's governmental activities cash receipts for fiscal years 2014 and 2013.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The District's governmental funds reported a combined fund balance of \$4,601,437, which is a higher balance than last year's total balance of \$2,541,444. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and June 30, 2013, for all major and nonmajor governmental funds.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Change
Major fund:			
General	\$ 4,401,154	\$ 2,325,514	\$ 2,075,640
Other nonmajor governmental funds	200,283	215,930	(15,647)
Total	<u>\$ 4,601,437</u>	<u>\$ 2,541,444</u>	<u>\$ 2,059,993</u>

General Fund

The general fund, the District's largest major fund, had cash receipts and other financing sources of \$22,736,680 in 2014. The cash disbursements of the general fund, totaled \$20,521,740 in 2014. The general fund's fund balance increased \$2,075,640 from 2013 to 2014. The increase in fund balance can be attributed to an increase in revenues received from the state.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

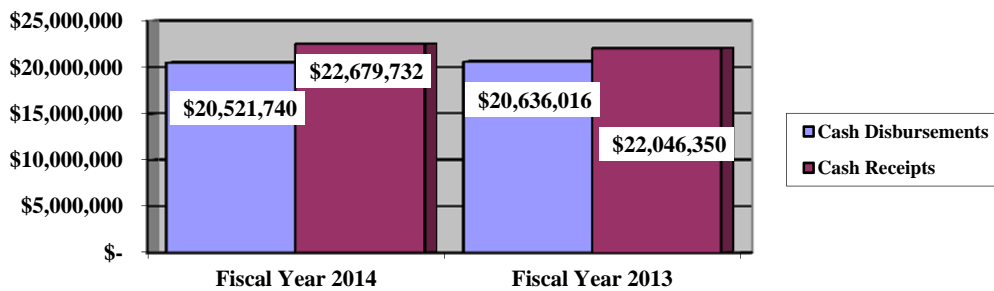
The table below assists in illustrating the cash receipts of the general fund.

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Percentage Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 10,971,066	\$ 11,076,582	(0.95) %
Tuition	178,918	163,870	9.18 %
Earnings on investments	6,615	4,172	58.56 %
Other local revenues	213,150	343,093	(37.87) %
Intergovernmental - State	<u>11,309,983</u>	<u>10,458,633</u>	8.14 %
Total	<u>\$ 22,679,732</u>	<u>\$ 22,046,350</u>	2.87 %

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

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Percentage Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 13,056,328	\$ 13,234,237	(1.34) %
Support services	6,795,461	6,723,253	1.07 %
Operation of non-instruction	666	83	702.41 %
Extracurricular	659,362	676,999	(2.61) %
Facilities acquisition and construction	<u>9,923</u>	<u>1,444</u>	587.19 %
Total	<u>\$ 20,521,740</u>	<u>\$ 20,636,016</u>	(0.55) %

General Fund - Total Cash Receipts vs. Total Cash Disbursements



Budgeting Highlights - General Fund

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

During the course of fiscal year 2014, the District amended its general fund budget numerous times. For the general fund and other financing sources, original budgeted receipts and other financing sources were \$22,505,448 and final budgeted receipts were \$22,637,900. The actual receipts and other financing sources were \$22,754,031 for fiscal year 2014, which was \$116,131 more than the final budget receipts.

General fund original appropriations were \$21,374,665 and final appropriations and other financing uses were \$21,388,758. The actual budget basis disbursements and other financing uses for fiscal year 2014 totaled \$20,872,062, which was \$516,696 less than the final budget appropriations. The decrease is due primarily to the decrease in actual disbursements related to instruction and support services.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

At June 30, 2014, the District had no outstanding long-term obligations.

Current Financial Related Activities

The District's general fund was in an unstable financial position by the end of fiscal year 2011; however a new 5-year emergency operating levy was passed by voters in November 2011. Revenues from that levy started coming in by March 2013. The receipts from that levy, coupled with spending reductions, allowed the District to have a balanced general fund budget for fiscal year 2014.

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

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

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Contacting the District's Financial Management

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2014**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,793,108
Total assets	5,793,108
Net position:	
Restricted for:	
Capital projects	184,452
Debt service.	1,926
State funded programs.	2,362
Federally funded programs	2,987
Student activities	7,713
Other purposes	843
Unrestricted	5,592,825
Total net cash position.	\$ 5,793,108

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

		<u>Program Cash Receipts</u>		<u>Net (Cash Disbursements) Cash Receipts and Changes Net Cash Position</u>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 10,265,242	\$ 204,922	\$ 68,918	\$ (9,991,402)
Special	3,417,429	56,063	1,327,414	(2,033,952)
Other	29,633	-	-	(29,633)
Support services:				
Pupil	1,123,348	-	147,123	(976,225)
Instructional staff	752,357	-	2,475	(749,882)
Board of education	97,793	-	-	(97,793)
Administration	1,663,812	36,613	15,203	(1,611,996)
Fiscal	493,291	-	-	(493,291)
Business	6,227	-	-	(6,227)
Operations and maintenance	1,759,904	2,963	-	(1,756,941)
Pupil transportation	1,245,871	-	70,455	(1,175,416)
Central	6,376	-	-	(6,376)
Operation of non-instructional services:				
Other non-instructional services	7,614	-	7,000	(614)
Food service operations	915,702	493,399	306,534	(115,769)
Extracurricular activities	957,519	204,566	3,335	(749,618)
Facilities acquisition and construction	73,986	-	-	(73,986)
Total governmental activities	\$ 22,816,104	\$ 998,526	\$ 1,948,457	(19,869,121)
 General revenues:				
Property taxes levied for:				
General purposes				10,971,066
Capital outlay				581,140
Grants and entitlements not restricted				
to specific programs				10,401,811
Investment earnings				8,334
Miscellaneous				71,013
Total general revenues				22,033,364
Change in net cash position				2,164,243
Net cash position at beginning of year				3,628,865
Net cash position at end of year				\$ 5,793,108

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 4,401,154	\$ 200,283	\$ 4,601,437
Total assets	<u>\$ 4,401,154</u>	<u>\$ 200,283</u>	<u>\$ 4,601,437</u>
Fund cash balances:			
Restricted:			
Debt service	\$ -	\$ 1,926	\$ 1,926
Capital improvements	-	184,452	184,452
Food service operations	-	843	843
Special education	-	71	71
Targeted academic assistance	-	47	47
Extracurricular.	-	7,713	7,713
Other purposes.	-	5,231	5,231
Assigned:			
Student instruction	71,616	-	71,616
Student and staff support.	128,057	-	128,057
Extracurricular activities	27,350	-	27,350
Facilities acquisition and construction	4,325	-	4,325
Other purposes.	9,785	-	9,785
Unassigned	<u>4,160,021</u>	<u>-</u>	<u>4,160,021</u>
Total fund cash balances.	<u>\$ 4,401,154</u>	<u>\$ 200,283</u>	<u>\$ 4,601,437</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO
NET POSITION - CASH BASIS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund cash balances \$ 4,601,437

*Amounts reported for governmental activities on the
statement of net position - cash basis are different because:*

An internal service fund is used by management to charge the
costs of insurance to individual funds. The assets of the
internal service fund are included in governmental activities
on the statement of net position - cash basis.

1,191,671

Net position - cash basis of governmental activities \$ 5,793,108

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 10,971,066	\$ 581,140	\$ 11,552,206
Tuition	178,918	-	178,918
Earnings on investments	6,615	-	6,615
Charges for services	-	493,399	493,399
Extracurricular	41,196	204,460	245,656
Classroom materials and fees	77,215	-	77,215
Rental income	2,963	375	3,338
Contributions and donations	8,713	3,339	12,052
Other local revenues	83,063	1,798	84,861
Intergovernmental - state	11,272,224	117,407	11,389,631
Intergovernmental - federal	37,759	896,978	934,737
Total cash receipts	<u>22,679,732</u>	<u>2,298,896</u>	<u>24,978,628</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	9,975,356	341,014	10,316,370
Special	3,051,339	387,014	3,438,353
Other	29,633	-	29,633
Support services:			
Pupil	972,465	153,976	1,126,441
Instructional staff	687,500	68,199	755,699
Board of education	97,793	-	97,793
Administration	1,658,708	12,954	1,671,662
Fiscal	484,497	9,316	493,813
Business	6,227	-	6,227
Operations and maintenance	1,733,453	32,311	1,765,764
Pupil transportation	1,148,442	101,349	1,249,791
Central	6,376	-	6,376
Operation of non-instructional services:			
Other operation of non-instructional	666	6,948	7,614
Food service operations	-	920,549	920,549
Extracurricular activities	659,362	299,202	958,564
Facilities acquisition and construction	9,923	64,063	73,986
Total cash disbursements	<u>20,521,740</u>	<u>2,396,895</u>	<u>22,918,635</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>2,157,992</u>	<u>(97,999)</u>	<u>2,059,993</u>
Other financing sources (uses):			
Transfers in	-	126,800	126,800
Transfers (out)	(126,800)	-	(126,800)
Advances in	56,948	12,500	69,448
Advances (out)	(12,500)	(56,948)	(69,448)
Total other financing sources (uses)	<u>(82,352)</u>	<u>82,352</u>	<u>-</u>
Net change in fund balances	2,075,640	(15,647)	2,059,993
Fund cash balances at beginning of year	<u>2,325,514</u>	<u>215,930</u>	<u>2,541,444</u>
Fund cash balances at end of year	<u>\$ 4,401,154</u>	<u>\$ 200,283</u>	<u>\$ 4,601,437</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances - cash basis - total governmental funds \$ 2,059,993

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

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

104,250

Change in net cash position of governmental activities \$ 2,164,243

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 11,327,190	\$ 10,968,000	\$ 10,971,066	\$ 3,066
Tuition	167,577	161,769	178,918	17,149
Earnings on investments	4,266	5,000	6,615	1,615
Classroom materials and fees	83,661	81,810	77,215	(4,595)
Rental income	10,105	4,881	2,963	(1,918)
Other local revenues	54,997	65,928	66,370	442
Intergovernmental - state	10,695,261	11,185,564	11,272,224	86,660
Total budgetary basis receipts.	<u>22,343,057</u>	<u>22,472,952</u>	<u>22,575,371</u>	<u>102,419</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	10,547,527	10,119,000	9,994,379	124,621
Special.	3,240,601	3,197,443	3,129,839	67,604
Other.	29,552	31,383	29,818	1,565
Support services:				
Pupil.	944,258	1,011,140	979,362	31,778
Instructional staff	589,060	733,777	708,813	24,964
Board of education	71,712	119,347	115,253	4,094
Administration.	1,692,284	1,671,620	1,627,650	43,970
Fiscal	500,329	504,023	491,608	12,415
Business	7,157	7,236	6,227	1,009
Operations and maintenance.	1,856,053	1,873,884	1,771,719	102,165
Pupil transportation	1,174,431	1,204,901	1,166,023	38,878
Central.	6,371	7,269	6,376	893
Operation of non-instructional services:				
Other non-instructional services	1,365	1,531	816	715
Extracurricular activities.	704,215	745,961	690,631	55,330
Facilities acquisition and construction	-	15,243	14,248	995
Total budgetary basis disbursements	<u>21,364,915</u>	<u>21,243,758</u>	<u>20,732,762</u>	<u>510,996</u>
Excess of budgetary basis receipts over budgetary basis disbursements	<u>978,142</u>	<u>1,229,194</u>	<u>1,842,609</u>	<u>613,415</u>
Other financing sources (uses):				
Refund of prior year's expenditures	112,391	108,000	117,017	9,017
Transfers (out).	-	(127,000)	(126,800)	200
Advances in.	50,000	56,948	56,948	-
Advances (out)	(9,750)	(18,000)	(12,500)	5,500
Sale of capital assets	-	-	4,695	4,695
Total other financing sources (uses)	<u>152,641</u>	<u>19,948</u>	<u>39,360</u>	<u>19,412</u>
Net change in fund cash balance	1,130,783	1,249,142	1,881,969	632,827
Fund cash balance at beginning of year	2,134,370	2,134,370	2,134,370	-
Prior year encumbrances appropriated	143,682	143,682	143,682	-
Fund cash balance at end of year	<u>\$ 3,408,835</u>	<u>\$ 3,527,194</u>	<u>\$ 4,160,021</u>	<u>\$ 632,827</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014**

	<u>Governmental Activities - Internal Service Funds</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 1,191,671</u>
Total assets.	<u>1,191,671</u>
Net cash position:	
Unrestricted.	<u>1,191,671</u>
Total net cash position.	<u><u>\$ 1,191,671</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN
NET POSITION - CASH BASIS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Governmental Activities - Internal Service Funds</u>
Operating cash receipts:	
Sales/charges for services.	\$ 3,306,800
Total operating cash receipts	<u>3,306,800</u>
Operating cash disbursements:	
Purchased services.	487,566
Claims.	<u>2,716,703</u>
Total operating cash disbursements	<u>3,204,269</u>
Operating gain	<u>102,531</u>
Nonoperating cash receipts:	
Interest receipts	<u>1,719</u>
Total nonoperating cash receipts.	<u>1,719</u>
Change in net cash position	104,250
Net cash position at beginning of year.	<u>1,087,421</u>
Net cash position at end of year	<u><u>\$ 1,191,671</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
JUNE 30, 2014**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 15,415	\$ 67,044
Total assets.	<u>\$ 15,415</u>	<u>\$ 67,044</u>
Net cash position:		
Held in trust for scholarships	\$ 15,415	\$ -
Held for student activities	-	67,044
Total net cash position.	<u>\$ 15,415</u>	<u>\$ 67,044</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 16
Gifts and contributions.	2,280
Total additions.	2,296
 Change in net cash position.	2,296
Net cash position at beginning of year. . .	13,119
Net cash position at end of year	\$ 15,415

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 5 instructional facilities. The District employs 110 non-certified and 146.5 certified employees to provide services to approximately 2,509 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

Pioneer Career and Technology Center (PCTC)

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

INSURANCE PURCHASING POOL

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

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

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

B. Basis of Accounting

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

FIDUCIARY FUNDS

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

D. Basis of Presentation and Measurement Focus

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2014 is as follows:

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2014.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2014.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$6,615, which includes \$609 assigned from other District funds.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

At June 30, 2014, the District had no investments. All cash was maintained in demand deposit accounts. See Note 4 for more detail.

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

Lease purchase agreements and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments. The District had no long-term debt outstanding at June 30, 2014.

J. Fund Cash Balance

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

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

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

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

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

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

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

L. Net Cash Position

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

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

M. Interfund Activity

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

N. Parochial Schools

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

O. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made for future general fund shortfall. At June 30, 2014, the balance in the budget stabilization reserve was \$87,929. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25", and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the District.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$5,875,467. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$5,799,822 of the District's bank balance of \$6,056,583 was exposed to custodial risk as discussed below, while \$256,761 was covered by the FDIC.

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

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

The following is a reconciliation of deposits and cash on hand as reported in the note above to cash as reported on the statement of net position as of June 30, 2014:

<u>Deposits and cash on hand</u>	
Carrying amount of deposits	\$ 5,875,467
Cash on hand	100
Total	\$ 5,875,567
 <u>Cash per statement of net position</u>	
Governmental funds	\$ 5,793,108
Private-purpose trust fund	15,415
Agency fund	67,044
Total	\$ 5,875,567

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund advances for the year ended June 30, 2014, consisted of the following, as reported on the fund statements:

<u>Advances to nonmajor governmental funds from:</u>	
General fund	\$ 12,500
 <u>Advances to the general fund from:</u>	
Nonmajor governmental funds	<u>56,948</u>
	<u>\$ 69,448</u>

The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. The purpose of the interfund advance made to the general fund is to repay advances made in the prior fiscal year from the general fund.

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

- B. Interfund transfers for the year ended June 30, 2014, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 126,800</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting purposes in the statement of activities.

All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland and Morrow Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 330,428,580	97.61	\$ 330,147,180	97.37
Public utility personal	<u>8,092,900</u>	<u>2.39</u>	<u>8,902,640</u>	<u>2.63</u>
Total	<u>\$ 338,521,480</u>	<u>100.00</u>	<u>\$ 339,049,820</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$47.50		\$48.50

NOTE 7 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 7 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

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

NOTE 8 - RISK MANAGEMENT

A. Comprehensive

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

The District had the following coverages in effect for fiscal year 2014:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 6,000,000	\$ -
Aggregate	8,000,000	-
Fleet:		
Comprehensive	6,000,000	1,000 buses / 250 other
Collision	1,000,000	1,000 buses / 500 other
Building and contents	65,429,989	1,000

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

B. Self Insurance

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

A comparison of self-insurance fund cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2013</u>	<u>2014</u>
Cash and Investments	\$ 1,087,421	\$ 1,191,671
Actuarial Liabilities	\$ 359,254	\$ 293,238

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 8 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$413,828, \$403,610 and \$386,140, respectively; 82.69% has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System of Ohio

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 9 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,161,209, \$1,220,853 and \$1,192,381, respectively; 82.43% has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$50,815 made by the District and \$39,926 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$56,136, \$47,774 and \$61,696, respectively; 82.69 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**LEXINGTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$24,008, \$22,799 and 22,804, respectively; 82.69 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$89,324, \$93,912 and \$91,722, respectively; 82.43 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

NOTE 11 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in a pending litigation. However, the materiality of the litigation was unknown at fiscal year end.

NOTE 12 - STATUTORY RESERVES

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 12 - STATUTORY RESERVES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	422,487
Current year qualifying expenditures	(92,270)
Current year offsets	<u>(692,442)</u>
Total	<u>\$ (362,225)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u>\$ -</u>

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

Net Change in Fund Cash Balance

Budget basis	\$ 1,881,969
Funds budgeted elsewhere **	(2,431)
Adjustment for encumbrances	<u>196,102</u>
Cash basis	<u>\$ 2,075,640</u>

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

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 14 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 197,557
Other governmental	<u>4,783</u>
Total	<u>\$ 202,340</u>

NOTE 15 - SUBSEQUENT EVENT

On July 24, 2014, Jason Whitesel became Treasurer of the District.

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**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR <i>Passed Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed through the Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance			
National School Lunch Program	10.555	\$54,997	\$54,997
Cash Assistance			
School Breakfast Program	10.553	27,453	27,453
National School Lunch Program	10.555	<u>271,177</u>	<u>271,177</u>
Total Child Nutrition Cluster		<u>353,627</u>	<u>353,627</u>
State Administrative Expenses for Child Nutrition	10.560	<u>6,948</u>	<u>6,948</u>
Total U.S. Department of Agriculture		<u>360,575</u>	<u>360,575</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through the Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	223,580	231,641
Special Education Grants to States	84.027	302,899	315,328
Improving Teacher Quality State Grants	84.367	44,322	44,374
ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	<u>20,598</u>	<u>23,807</u>
Total U.S. Department of Education		<u>591,399</u>	<u>615,150</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		<u><u>\$951,974</u></u>	<u><u>\$975,725</u></u>

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this schedule.

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports Lexington Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at fair market value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lexington Local School District
Richland County
103 Clever Lane
Lexington, Ohio 44904

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Lexington Local School District
Richland County
103 Clever Lane
Lexington, Ohio 44904

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited Lexington Local School District's, Richland County, Ohio, (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2014. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lexington Local School District, Richland County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2014

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies <u>Child Nutrition Cluster:</u> CFDA #10.553 – School Breakfast Program CFDA #10.555 – National School Lunch Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014
(Continued)**

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

Finding Number	2014-001
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**Material Noncompliance
GAAP Reporting**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2014, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

We recommend the District prepare its financial statements on the GAAP basis of accounting.

Officials' Response:

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

3. FINDINGS FOR FEDERAL AWARDS

None

**LEXINGTON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Administrative Code § 117-2-03(B) – GAAP Reporting	No	Not corrected, repeated as finding 2014-001.
2013-002	Material Noncompliance / Significant Deficiency – Nutrition Cluster Eligibility	Yes	

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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
DECEMBER 23, 2014**