

NEW LEXINGTON CITY SCHOOL DISTRICT

PERRY COUNTY

SINGLE AUDIT

JULY 1, 2006 - JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the New Lexington City School District, Perry County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 8, 2008

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**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lexington City School District, Perry County, Ohio (the School District) as of and for the fiscal year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lexington City School District, Perry County, Ohio as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Title I Funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2007, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

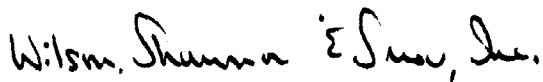
Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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New Lexington City School District
Perry County
Independent Auditors' Report

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

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



Newark, Ohio
December 15, 2007

New Lexington City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The discussion and analysis of the New Lexington City School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 include:

- General revenues accounted for \$13,574,019 in revenue or 73.4 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,916,344 or 26.6 percent of total revenues of \$18,490,363.
- Total program expenses were \$19,986,856.
- In total, net assets decreased \$1,496,493 which represents a 4.7 percent decrease from 2006.
- Outstanding bonded debt decreased from \$3,040,000 to \$2,920,000 through the payment of bond principal.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the School District's finances is, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

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

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

(Table 1)
Net Assets – Governmental Activities

	2007	2006
Assets		
Current and Other Assets	\$ 9,962,769	\$ 12,199,580
Capital Assets	28,139,283	28,971,920
Total Assets	38,102,052	41,171,500
Liabilities		
Long-Term Liabilities	4,085,079	4,210,349
Other Liabilities	3,731,560	5,179,245
Total Liabilities	7,816,639	9,389,594
Net Assets		
Invested in Capital Assets, Net of Related Debt	25,106,584	25,780,612
Restricted	1,972,527	2,027,572
Unrestricted	3,206,302	3,973,722
Total Net Assets	\$ 30,285,413	\$ 31,781,906

Total assets decreased by \$3,069,448. Taxes receivable decreased by \$1,445,300 from the prior year, this decrease comprised the largest portion of the current assets decrease. Capital assets decreased by \$832,637 due to current year depreciation expense exceeding additional purchases. Total liabilities decreased by \$1,572,955. The majority of this is due to a \$1,603,706 decrease of unearned revenue, which was related to the amount of property taxes receivable at year-end.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2007. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets - Governmental Activities

	2007	2006
<i>Revenues</i>		
<i>Program Revenues</i>		
Charges for Services and Sales	\$ 499,541	\$ 396,254
Operating Grants and Contributions	3,927,273	4,210,578
Capital Grants and Contributions	489,530	32,993
<i>Total Program Revenues</i>	4,916,344	4,639,825
<i>General Revenues</i>		
Property Taxes	2,227,803	2,247,585
Grants and Entitlements	10,888,538	10,007,047
Other	457,678	368,101
<i>Total General Revenues</i>	13,574,019	12,622,733
<i>Total Revenues</i>	18,490,363	17,262,558
<i>Program Expenses</i>		
Instruction	11,157,043	10,207,387
Support Services:		
Pupils and Instructional Staff	1,316,867	1,261,961
Board of Education, Administration, Fiscal and Business	2,026,678	1,864,852
Operation and Maintenance of Plant	2,256,690	2,126,379
Pupil Transportation	1,394,444	1,298,319
Central	337,061	346,136
Operation of Non-Instructional Services:		
Food Service Operations	918,677	843,002
Community Services	129,797	99,651
Extracurricular Activities	276,667	366,727
Interest and Fiscal Charges	172,932	182,472
<i>Total Expenses</i>	19,986,856	18,596,886
Decrease in Net Assets	(1,496,493)	(1,334,328)
Net Assets Beginning of Year	31,781,906	33,116,234
Net Assets End of Year	\$ 30,285,413	\$ 31,781,906

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases. Property taxes made up 16.4 percent of general revenues for governmental activities for the School District in fiscal year 2007. Nonspecific State support, however, is the primary support for the School District at 80.2 percent of general revenues. Although the School District relies heavily upon these two sources to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 55.8 percent of governmental program expenses. Additional supporting services for pupils, staff, board of education, administration, fiscal, and business operations encompassed an additional 16.7 percent. The remaining 27.5 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

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

(Table 3)
Governmental Activities

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Instruction	\$ 11,157,043	\$ 10,207,387	\$ 8,261,019	\$ 7,130,478
Support Services:				
Pupil and Instructional Staff	1,316,867	1,261,961	845,184	902,911
Board of Education, Administration, Fiscal, and Business	2,026,678	1,864,852	2,026,678	1,677,635
Operation and Maintenance of Plant	2,256,690	2,126,379	2,181,330	2,120,321
Pupil Transportation	1,394,444	1,298,319	1,369,559	1,284,910
Central	337,061	346,136	321,761	330,211
Operation of Non-Instructional Services:				
Food Service Operations	918,677	843,002	108,284	20,328
Community Services	129,797	99,651	42,346	5,678
Extracurricular Activities	276,667	366,727	(258,581)	302,117
Interest and Fiscal Charges	172,932	182,472	172,932	182,472
Total Expenses	\$ 19,986,856	\$ 18,596,886	\$ 15,070,512	\$ 13,957,061

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The dependence on nonspecific State support for governmental activities is apparent. 54.5 percent of expenses are directly supported by nonspecific State support. Program revenues only account for 24.6 percent of all governmental expenses. Program revenues include charges for services and sales, grants and contributions that are program specific.

The School District's Funds

Information about the School District's governmental funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,491,791 and expenditures of \$18,511,927. The net change in fund balance for the fiscal year was a decrease of \$20,136. Changes in the School District's Major funds are described below:

General Fund

The General Fund had total revenues of \$14,494,767, an increase of \$1,300,089 from the previous year. The General Fund also had total expenditures of \$14,319,073, an increase of \$863,331. Overall, the net change in fund balance was an increase of \$50,694.

Title I Fund

The Title I Fund had total revenues of \$529,649 and total expenditures of \$559,281. Fund balance decreased \$29,632 from \$105,131 to \$75,499.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the School District amended its General Fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities for operations and maintenance of buildings. For the General Fund, the final budget basis revenue was \$14,209,095 this amount was the same as the original budget revenue. The final appropriations were \$15,374,370, which was \$980,004 higher than the original budget of \$14,394,366. Most of this difference was due to an underestimation of instruction expenses. The School District's General Fund unencumbered cash balance at the end of the fiscal year was \$4,092,766.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$28,139,283 invested in land, buildings and building improvements, improvements other than buildings, furniture and equipment, and vehicles, net of depreciation. Table 4 shows fiscal year 2007 balances compared with 2006. More detailed information is presented in Note 8 of the notes to the basic financial statements.

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

	2007	2006
Land	\$ 218,360	\$ 218,360
Buildings and Building Improvements	25,491,953	26,325,142
Improvements Other than Buildings	1,033,963	502,023
Furniture and Equipment	1,011,601	1,433,250
Vehicles	383,406	493,145
Totals	\$ 28,139,283	\$ 28,971,920

The \$832,637 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

For fiscal year 2007, Ohio law required school districts to set aside certain revenues for capital improvements and for textbooks. For fiscal year 2007, this amounted to \$155,115 for textbooks only. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and therefore, is not required to set aside any additional funds. The School District has also elected to designate \$448,166 within the general fund for possible future shortfalls. Additional information regarding set-asides is presented in Note 19 of the notes to the basic financial statements.

Debt

At June 30, 2007, the School District had \$2,920,000 in bonds outstanding with \$130,000 due within one year. During fiscal year 2007, \$120,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Bonded Debt at June 30
Governmental Activities

	2007	2006
General Obligation Bonds	\$ 2,920,000	\$ 3,040,000

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

New Lexington City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Economic Factors

The New Lexington City School District continues to receive strong support from the residents of the School District. The last operating levy, a 3 mill renewal, passed by the residents of the School District was in November 2007.

Real estate and personal property tax collections have shown small increases. Personal property taxes are scheduled to be phased out in 2010. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property tax revenue makes up only 12 percent of revenues for governmental activities for the School District in fiscal year 2007. Unlike many other school districts, the School District is not dependent upon revenues generated from property taxes.

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

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

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The School District's current five-year forecast projects deficit spending at the end of fiscal years 2008, 2009, 2010 and 2011 with positive cash balances of \$4,846,282, \$4,087,282, \$3,142,282 and \$1,934,282 for the respective fiscal years.

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

Contacting the School District's Financial Management

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

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,436,792
Receivables:	
Taxes	2,696,939
Accounts	57,622
Intergovernmental	756,866
Inventory Held for Resale	9,689
Materials and Supplies Inventory	4,861
Nondepreciable Capital Assets	218,360
Depreciable Capital Assets (Net)	27,920,923
	<hr/>
<i>Total Assets</i>	38,102,052
	<hr/>
Liabilities	
Accounts Payable	286,877
Accrued Wages and Benefits	1,507,368
Accrued Interest Payable	13,464
Intergovernmental Payable	396,162
Unearned Revenue	1,171,523
Claims Payable	356,166
Long Term Liabilities:	
Due Within One Year	319,044
Due in More Than One Year	3,766,035
	<hr/>
<i>Total Liabilities</i>	7,816,639
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	25,106,584
Restricted for:	
Capital Projects	956
Debt Service	404,655
Set Asides	155,115
Other Purposes	1,411,801
Unrestricted	3,206,302
	<hr/>
<i>Total Net Assets</i>	\$ 30,285,413
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See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 7,964,441	\$ 150,733	\$ 930,587	\$ -	\$ (6,883,121)
Special	2,548,395	-	1,639,316	4,645	(904,434)
Vocational	631,759	-	167,661	-	(464,098)
Other	12,448	3,082	-	-	(9,366)
Support Services:					
Pupils	833,648	-	222,570	-	(611,078)
Instructional Staff	483,219	-	249,113	-	(234,106)
Board of Education	130,009	-	-	-	(130,009)
Administration	1,594,880	-	-	-	(1,594,880)
Fiscal	258,095	-	-	-	(258,095)
Business	43,694	-	-	-	(43,694)
Operation and Maintenance of Plant	2,256,690	-	75,360	-	(2,181,330)
Pupil Transportation	1,394,444	-	-	24,885	(1,369,559)
Central	337,061	-	15,300	-	(321,761)
Operation of Non-Instructional Services:					
Food Service Operations	918,677	270,478	539,915	-	(108,284)
Community Services	129,797	-	87,451	-	(42,346)
Extracurricular Activities	276,667	75,248	-	460,000	258,581
Interest and Fiscal Charges	172,932	-	-	-	(172,932)
Totals	\$ 19,986,856	\$ 499,541	\$ 3,927,273	\$ 489,530	(15,070,512)
General Revenues					
Property Taxes Levied for:					
					2,094,151
					119,233
					14,419
					10,888,538
					245,956
					211,722
					<u>13,574,019</u>
					<i>Total General Revenues</i>
					(1,496,493)
					<i>Change in Net Assets</i>
					31,781,906
					<i>Net Assets Beginning of Year</i>
					<u>\$ 30,285,413</u>
					<i>Net Assets End of Year</i>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2007

	General	Title I	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,602,243	\$ 73,093	\$ 1,185,151	\$ 5,860,487
Restricted Cash and Cash Equivalents	224,040	-	-	224,040
Receivables:				
Taxes	2,462,901	-	234,038	2,696,939
Accounts	57,406	-	216	57,622
Interfund	22,800	-	-	22,800
Intergovernmental	-	207,142	549,724	756,866
Inventory Held For Resale	-	-	9,689	9,689
Materials and Supplies Inventory	-	-	4,861	4,861
<i>Total Assets</i>	<u>\$ 7,369,390</u>	<u>\$ 280,235</u>	<u>\$ 1,983,679</u>	<u>\$ 9,633,304</u>
Liabilities				
Accounts Payable	\$ 148,674	\$ 7,315	\$ 130,888	\$ 286,877
Accrued Wages and Benefits	1,217,208	48,473	241,687	1,507,368
Interfund Payable	-	-	22,800	22,800
Intergovernmental Payable	363,198	1,382	31,582	396,162
Unearned Revenue	1,563,480	147,566	489,805	2,200,851
<i>Total Liabilities</i>	<u>3,292,560</u>	<u>204,736</u>	<u>916,762</u>	<u>4,414,058</u>
Fund Balances				
Reserved for Encumbrances	436,722	67,482	315,932	820,136
Reserved for Property Taxes	899,421	-	141,570	1,040,991
Reserved for Textbooks	155,115	-	-	155,115
Reserved for Bus Purchase	68,925	-	-	68,925
Unreserved, Designated:				
Designated for Budget Stabilization	448,166	-	-	448,166
Unreserved, Undesignated, Reported in:				
General Fund	2,068,481	-	-	2,068,481
Special Revenue Funds	-	8,017	416,635	424,652
Debt Service Fund	-	-	279,724	279,724
Capital Projects Funds	-	-	(86,944)	(86,944)
<i>Total Fund Balances</i>	<u>4,076,830</u>	<u>75,499</u>	<u>1,066,917</u>	<u>5,219,246</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 7,369,390</u>	<u>\$ 280,235</u>	<u>\$ 1,983,679</u>	<u>\$ 9,633,304</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007*

Total Governmental Fund Balances \$ 5,219,246

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 28,139,283

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

Grants	\$ 836,480
Delinquent Property Taxes	<u>192,848</u>

Total	<u>1,029,328</u>
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An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. (3,901)

In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due. (13,464)

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

General Obligation Bonds	(2,920,000)
Compensated Absences Payable	(1,052,380)
Capital Leases	<u>(112,699)</u>

Total	<u><u>(4,085,079)</u></u>
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Net Assets of Governmental Activities \$ 30,285,413

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Title I	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,716,707	\$ -	\$ 254,487	\$ 2,971,194
Intergovernmental	11,256,164	529,649	2,777,565	14,563,378
Investment Income	240,226	-	5,730	245,956
Tuition and Fees	149,548	-	3,082	152,630
Extracurricular Activities	-	-	75,248	75,248
Rentals	1,185	-	-	1,185
Charges for Services	-	-	270,478	270,478
Miscellaneous	130,937	-	80,785	211,722
<i>Total Revenues</i>	<u>14,494,767</u>	<u>529,649</u>	<u>3,467,375</u>	<u>18,491,791</u>
Expenditures				
Current:				
Instruction:				
Regular	5,925,045	19,366	1,294,418	7,238,829
Special	1,915,532	286,160	315,901	2,517,593
Vocational	627,709	-	-	627,709
Other	7,709	-	4,739	12,448
Support Services:				
Pupils	601,702	126,431	67,256	795,389
Instructional Staff	258,851	64,521	139,804	463,176
Board of Education	115,672	-	-	115,672
Administration	1,285,020	47,604	136,116	1,468,740
Fiscal	254,816	500	10,079	265,395
Business	11,656	-	32,038	43,694
Operation and Maintenance of Plant	1,714,615	-	240,877	1,955,492
Pupil Transportation	979,592	-	7,084	986,676
Central	268,583	-	16,444	285,027
Operation of Non-Instructional Services:				
Food Service Operations	-	-	886,965	886,965
Community Services	17,880	14,699	97,212	129,791
Extracurricular Activities	287,016	-	100,314	387,330
Debt Service:				
Principal Retirement	38,609	-	120,000	158,609
Interest and Fiscal Charges	9,066	-	164,326	173,392
<i>Total Expenditures</i>	<u>14,319,073</u>	<u>559,281</u>	<u>3,633,573</u>	<u>18,511,927</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	175,694	(29,632)	(166,198)	(20,136)
Other Financing Sources (Uses)				
Transfers In	-	-	125,000	125,000
Transfers Out	(125,000)	-	-	(125,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(125,000)</u>	<u>-</u>	<u>125,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	50,694	(29,632)	(41,198)	(20,136)
<i>Fund Balances Beginning of Year</i>	<u>4,026,136</u>	<u>105,131</u>	<u>1,108,115</u>	<u>5,239,382</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,076,830</u>	<u>\$ 75,499</u>	<u>\$ 1,066,917</u>	<u>\$ 5,219,246</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds \$ (20,136)

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

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

Capital Asset Additions	\$ 601,080	
Current Year Depreciation	<u>(1,433,717)</u>	
Total		(832,637)

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

Grants	281,963	
Delinquent Property Taxes	<u>(743,391)</u>	
Total		(461,428)

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

Bond Principal	120,000	
Capital Leases	<u>38,609</u>	
Total		158,609

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. 460

Compensated absences are reported in the statement of activities do not require the use the current financial resources and therefore are not reported as expenditures in governmental funds. (33,339)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (308,022)

Change in Net Assets of Governmental Activities \$ (1,496,493)

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 2,385,000	\$ 2,385,000	\$ 2,185,578	\$ (199,422)
Intergovernmental	11,341,795	11,341,795	11,257,558	(84,237)
Investment Income	171,000	171,000	243,968	72,968
Tuition and Fees	47,200	47,200	161,874	114,674
Rentals	800	800	1,185	385
Miscellaneous	57,300	57,300	61,054	3,754
<i>Total Revenues</i>	<u>14,003,095</u>	<u>14,003,095</u>	<u>13,911,217</u>	<u>(91,878)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,452,158	6,046,286	6,046,286	-
Special	1,658,960	1,924,921	1,924,921	-
Vocational	646,723	622,960	622,960	-
Other	7,745	7,737	7,737	-
Support Services:				
Pupils	583,223	610,242	610,242	-
Instructional Staff	342,325	283,531	283,531	-
Board of Education	105,927	115,096	115,096	-
Administration	1,323,926	1,345,498	1,345,498	-
Fiscal	346,200	273,808	273,808	-
Business	26,879	25,515	25,515	-
Operation and Maintenance of Plant	2,175,982	2,117,457	2,117,457	-
Pupil Transportation	972,441	1,050,490	1,050,490	-
Central	282,338	287,752	287,752	-
Operation of Non-Instructional Services:				
Food Service Operations	15,023	17,880	17,880	-
Community Services	24	-	-	-
Extracurricular Activities	276,726	308,587	308,587	-
<i>Total Expenditures</i>	<u>14,216,600</u>	<u>15,037,760</u>	<u>15,037,760</u>	<u>-</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(213,505)</u>	<u>(1,034,665)</u>	<u>(1,126,543)</u>	<u>(91,878)</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	17,000	17,000	15,879	(1,121)
Refund of Prior Year Receipts	(831)	(300)	(300)	-
Advances In	3,000	3,000	-	(3,000)
Advances Out	(31,316)	(25,310)	(22,800)	2,510
Transfers In	186,000	186,000	186,000	-
Transfers Out	(145,619)	(311,000)	(311,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>28,234</u>	<u>(130,610)</u>	<u>(132,221)</u>	<u>(1,611)</u>
<i>Net Change in Fund Balance</i>	<u>(185,271)</u>	<u>(1,165,275)</u>	<u>(1,258,764)</u>	<u>(93,489)</u>
<i>Fund Balance Beginning of Year</i>	4,797,256	4,797,256	4,797,256	-
Prior Year Encumbrances Appropriated	554,274	554,274	554,274	-
<i>Fund Balance End of Year</i>	<u>\$ 5,166,259</u>	<u>\$ 4,186,255</u>	<u>\$ 4,092,766</u>	<u>\$ (93,489)</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
Title I Fund
 For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,102,823	\$ 1,163,179	\$ 597,145	\$ (566,034)
Expenditures				
Current:				
Instruction:				
Regular	118,356	121,961	19,366	102,595
Special	734,942	757,329	350,742	406,587
Support Services:				
Pupils	163,276	168,250	139,075	29,175
Instructional Staff	76,008	78,324	77,926	398
Administration	47,967	49,426	48,950	476
Fiscal	970	1,000	1,000	-
Operation of Non-Instructional Services:				
Community Services	15,996	16,483	16,483	-
<i>Total Expenditures</i>	<u>1,157,515</u>	<u>1,192,773</u>	<u>653,542</u>	<u>539,231</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(54,692)</u>	<u>(29,594)</u>	<u>(56,397)</u>	<u>(26,803)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	25,099	25,099
Transfers Out	-	(25,099)	(25,099)	-
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>(25,099)</u>	<u>-</u>	<u>25,099</u>
<i>Net Change in Fund Balance</i>	(54,692)	(54,693)	(56,397)	(1,704)
<i>Fund Balance Beginning of Year</i>	25,177	25,177	25,177	-
Prior Year Encumbrances Appropriated	29,516	29,516	29,516	-
<i>Fund Balance End of Year</i>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (1,704)</u>	<u>\$ (1,704)</u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Fund Net Assets

Internal Service Fund

June 30, 2007

	<u>Governmental Activities - Internal Service</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 352,265</u>
Liabilities	
Claims Payable	<u>356,166</u>
Net Assets	
Unrestricted	<u>(3,901)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>\$ (3,901)</u></u>

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service
Operating Revenues	
Charges for Services	\$ 2,483,232
Operating Expenses	
Purchased services	264,021
Claims	2,523,405
Other	3,828
<i>Total Operating Expenses</i>	2,791,254
<i>Change in Net Assets</i>	(308,022)
<i>Net Assets Beginning of Year</i>	304,121
<i>Net Assets (Deficit) End of Year</i>	\$ (3,901)

See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 2,483,232
Cash Paid for Purchased Services	(264,021)
Cash Paid for Claims	(2,388,728)
Other Cash Payments	(3,828)
	<hr/>
<i>Net Cash Used For Operating Activities</i>	(173,345)
	<hr/>
<i>Net Decrease in Cash and Cash Equivalents</i>	(173,345)
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	525,610
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$ 352,265
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities:	
<i>Operating Loss</i>	\$ (308,022)
Adjustment:	
Increase in Claims Payable	134,677
	<hr/>
<i>Net Cash Used For Operating Activities</i>	\$ (173,345)
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See accompanying notes to the basic financial statements.

NEW LEXINGTON CITY SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 65,853
Accounts Receivable	128
	<hr/>
<i>Total Assets</i>	<u>\$ 65,981</u>
Liabilities	
Accounts Payable	\$ 2,638
Due to Students	63,343
	<hr/>
<i>Total Liabilities</i>	<u>\$ 65,981</u>

See accompanying notes to the basic financial statements.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

The School District operates under a locally-elected five member board form of government and provides educational services as mandated by State statute and Federal agencies. The Board of Education controls the School District's five instructional/support facilities staffed by 80 classified employees and 148 certified teaching personnel who provide services to 1,922 students and other community members.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Title I Fund – The Title I Fund provides financial assistance to the School District to meet the special needs of educationally deprived children.

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

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

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

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

C. Measurement Focus

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to certificates of deposit and a cash management account.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$240,226, which includes \$56,013 assigned from other School District funds.

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

F. Inventory

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

G. Restricted Assets

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Compensated Absences

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

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2007, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities, grants and extracurricular activities.

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

M. Fund Balance Reserves and Designations

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

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

The Board of Education approved a designation of fund balance of \$448,166 for budget stabilization. These funds may be necessary to cover deficits in future years.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

Q. Estimates

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

R. Budgetary Data

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Special Revenue Fund:	
Uniform School Supplies	\$ (833)
Nonmajor Capital Project Fund:	
Capital Project Fund	(87,900)

Net assets at June 30, 2007 included the following individual deficit:

	<u>Deficit</u>
Internal Service Fund	\$ (3,901)

The deficit fund balances/net assets resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required rather than when accruals occur.

B. Compliance

At June 30, 2007, appropriations exceeded estimated resources in the following funds by the amounts listed:

<u>Fund</u>	<u>Amount</u>
Food Service (006)	\$ 10,757
Self-Insurance (024)	551,578
District Managed Student Activity (300)	9,746
Management Information System (432)	1,133

In addition, the School District did not properly amend estimated receipts contrary to Ohio Revised Code Section 5705.36(A)(2).

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

	General	Title I
GAAP Basis	\$ 50,694	\$ (29,632)
Net adjustment for revenue accruals	(381,672)	92,595
Net adjustment for expenditure accruals	(171,471)	(44,563)
Advances Out	(22,800)	-
Adjustment for encumbrances	(733,515)	(74,797)
Budget Basis	\$ (1,258,764)	\$ (56,397)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2007, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$877,645. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2007, \$1,024,230 of the School District's bank balance of \$1,224,230 was exposed to custodial risk as discussed above, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2007, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
Cash Management Account	\$ 5,625,000	\$ 5,625,000

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2007:

Investment Type	Fair Value	Percent of Total
Cash Management Account	\$ 5,625,000	100.00%

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

The following is a reconciliation of cash and its investment to the Statement of Net Assets at June 30, 2007:

Investment (summarized above)	\$ 5,625,000
Carrying amount of the School District's deposits	877,645
Cash and cash equivalents – Statement of Fiduciary Assets and Liabilities	(65,853)
Cash and cash equivalents – Governmental Activities	\$ 6,436,792

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2003, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES (Continued)

The tangible personal property tax is being phased out – the assessed percentage for all property including inventory for 2006 was 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.5 percent for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20, Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Perry County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007, was \$899,421 in the General Fund, \$125,219 in the Bond Retirement Debt Service Other Governmental Fund and \$16,351 in the Classroom Facilities Maintenance Other Governmental Special Revenue Fund. The amount available as an advance at June 30, 2006, was \$368,992 in the General Fund, \$54,586 in the Bond Retirement Debt Service Other Governmental Fund and \$7,893 in the Classroom Facilities Maintenance Other Governmental Special Revenue Fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>2006 Second-Half Collections</u>		<u>2007 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property	\$ 112,399,730	85%	\$ 113,203,560	88%
Public Utility Tangible				
Personal Property	7,042,820	5%	7,510,890	6%
Tangible Personal Property	<u>13,199,738</u>	<u>10%</u>	<u>7,559,970</u>	<u>6%</u>
 Total Assessed Value	 <u>\$ 132,642,288</u>	 <u>100%</u>	 <u>\$ 128,274,420</u>	 <u>100%</u>
 Tax rate per \$1,000 of assessed value	 <u>\$ 35.97</u>		 <u>\$ 32.67</u>	

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of property taxes, accounts (billings for user charged services, and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivable follows:

Major Fund:	
Title I	\$ 207,142
Nonmajor Funds:	
School Reading Improvement Incentive	46,726
Title VI-B	72,279
Title VI	230
Eisenhower Grant	161,646
School to Work	268,843
Total Governmental Activities	\$ 756,866

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance 7/1/2006	Additions	Deletions	Balance 6/30/2007
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 218,360	\$ -	\$ -	\$ 218,360
<i>Capital Assets, being depreciated:</i>				
Land Improvements	948,051	585,000	-	1,533,051
Buildings and Improvements	34,052,083	-	-	34,052,083
Furniture and Equipment	5,269,420	16,080	-	5,285,500
Vehicles	1,232,579	-	-	1,232,579
<i>Total Capital Assets, being depreciated</i>	41,502,133	601,080	-	42,103,213
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(446,028)	(53,060)	-	(499,088)
Buildings and Improvements	(7,726,941)	(833,189)	-	(8,560,130)
Furniture and Equipment	(3,836,170)	(437,729)	-	(4,273,899)
Vehicles	(739,434)	(109,739)	-	(849,173)
<i>Total Accumulated Depreciation</i>	(12,748,573)	(1,433,717) *	-	(14,182,290)
<i>Total Capital Assets being depreciated, net</i>	28,753,560	(832,637)	-	27,920,923
<i>Governmental Activities Capital Assets, net</i>	\$ 28,971,920	\$ (832,637)	\$ -	\$ 28,139,283

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 – CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 573,487
Special	28,674
Vocational Education	4,301
Support Services:	
Pupil	17,205
Instructional Staff	21,506
Board of Education	14,337
Administration	28,674
Fiscal	4,301
Operation and Maintenance of Plant	278,141
Pupil Transportation	372,766
Central	58,782
Operation of Non-Institutional Services:	
Food Service Operations	17,206
Extracurricular Activities	<u>14,337</u>
Total Depreciation Expense	<u><u>\$ 1,433,717</u></u>

NOTE 9 – RISK MANAGEMENT

A. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 – RISK MANAGEMENT (Continued)

B. Property and Liability

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

<u>Property</u>	<u>Deductible</u>	<u>Limits of Coverage</u>
Real Property	\$ 1,000	\$ 45,156,476
General Liability:		
Per Occurrence	0	1,000,000
Annual Aggregate	0	3,000,000
Boiler and Machinery	2,500	14,900,000
Electronic Equipment	500	1,564,453
Vehicles:		
Bodily Injury:		
Per Person	0	2,000,000
Per Accident	0	2,000,000
Property Damage	0	2,000,000
Uninsured Motorist:		
Per Person	0	250,000
Per Accident	0	250,000

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

C. Employee Medical Benefits

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

The claims liability of \$356,166 reported in the internal service fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2007 and 2006 were:

	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2006	\$ 207,823	\$ 1,712,255	\$ (1,698,589)	\$ 221,489
2007	\$ 221,489	\$ 2,523,405	\$ (2,388,728)	\$ 356,166

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal years 2007, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$299,856, \$284,736, and \$273,480, respectively; 51 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

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

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$1,040,544, \$993,192 and \$941,256, respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$74,325 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, (the latest information available) the balance in the fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$102,658 during the 2007 fiscal year.

Net health care costs for the year ending June 30, 2006 (the latest information available), were \$158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 13 - GENERAL LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2007 were as follows:

	Principal Outstanding 7/1/2006	Additions	Reductions	Principal Outstanding 6/30/2007	Amount Due in One Year
Governmental Activities					
General Obligation Bonds:					
Classroom Facilities					
Bonds - 3.45%, 5.375%	\$ 3,040,000	\$ -	\$ (120,000)	\$ 2,920,000	\$ 130,000
Compensated Absences	1,019,041	141,681	(108,342)	1,052,380	147,735
Capital Leases	151,308	-	(38,609)	112,699	41,309
	<u>\$ 4,210,349</u>	<u>\$ 141,681</u>	<u>\$ (266,951)</u>	<u>\$ 4,085,079</u>	<u>\$ 319,044</u>

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

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2007 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2008	\$ 130,000	\$ 158,511	\$ 288,511
2009	135,000	152,250	287,250
2010	140,000	141,554	281,554
2011	155,000	130,189	285,189
2012	165,000	122,148	287,148
2013-2017	950,000	467,624	1,417,624
2018-2022	1,245,000	174,016	1,419,016
Total	<u>\$ 2,920,000</u>	<u>\$ 1,346,292</u>	<u>\$ 4,266,292</u>

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – CAPITALIZED LEASES

Capital lease obligations relate to copier equipment which is leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13, “Accounting for Leases”. Capital lease payments in the governmental funds have been reclassified and are reflected as debt service expenditures on the fund financial statements in the General Fund. These expenditures are reflected as instruction – regular and support services – administration on the budgetary basis in the General Fund. The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

Ending June 30,	Amount
2008	\$ 47,676
2009	47,676
2010	27,812
Total Minimum Lease Payments	123,164
Less: Amount Representing Interest	(10,465)
 Present Value of Minimum Lease Payments	 \$ 112,699

NOTE 15 – UNEARNED REVENUE

Unearned revenue at June 30, 2007 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property taxes receivable	\$ 1,171,523	\$ 1,655,948
Grants receivable	-	544,903
 Total unearned revenue	 \$ 1,171,523	 \$ 2,200,851

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

A. Southeast Ohio Voluntary Educational Consortium (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$47,428 for services provided during the year. To obtain financial information, write to the Southeast Ohio Voluntary Education Consortium, Bobbie Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45710.

B. Tri-County Joint Vocational School District

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

C. Coalition of Rural and Appalachian Schools

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

D. Southeastern Ohio Special Education Regional Resource Council

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

New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 17 – INSURANCE PURCHASING POOL

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

NOTE 18 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

As of June 30, 2007, the School District was a party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

NOTE 19 – SET-ASIDES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 19 – SET-ASIDES (Continued)

The following cash basis information describes the changes in the year-end set-aside amounts for each reserve:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization Designated</u>
Set-aside cash balance as of June 30, 2006	\$ 258,874	\$ (735,619)	\$ 448,166
Current year set-aside requirement	295,278	295,278	-
Qualifying off-sets	-	(96,964)	-
Qualifying disbursements	(399,037)	(207,480)	-
Total	<u>\$ 155,115</u>	<u>\$ (744,785)</u>	<u>\$ 448,166</u>
Balance carried forward to FY 2008	<u>\$ 155,115</u>	<u>\$ (744,785)</u>	<u>\$ 448,166</u>

The School District had qualifying disbursements and prior year qualifying off-sets during the year that reduced the set-aside amounts below zero for the Capital Maintenance Reserve. This amount may be used to reduce the set-aside requirement for future fiscal years.

A schedule of the General Fund restricted assets at June 30, 2007 follows:

Amount restricted for textbooks and instructional manuals	\$ 155,115
Amount restricted for bus purchases	<u>68,925</u>
	<u>\$ 224,040</u>
Amount designated for budget stabilization	<u>\$ 448,166</u>

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New Lexington City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 20 – INTERFUND TRANSACTIONS

A. Interfund Balances

Interfund balances at June 30, 2007 consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 22,800	\$ -
Other Governmental Funds:		
School Supply	-	3,000
Reading First Grant	-	19,800
	<u> </u>	<u> </u>
Totals	<u>\$ 22,800</u>	<u>\$ 22,800</u>

The primary purpose of the interfund loans is to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid one the anticipated revenues are received. All interfund loans are expected to be repaid within one year.

B. Interfund Transfers

During the fiscal year 2007, the General Fund transferred \$125,000 to the Other Governmental Funds to cover operating expenses.

NOTE 21 – SUBSEQUENT EVENT

On October 16, 2007, New Lexington City School District issued \$2,514,996 of general obligation bonds for the purpose of refunding classroom facilities bonds issued July 1, 1999. The bonds have a maturity date of December 1, 2021 and an interest rate of 4 percent.

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation	N/A	10.550	\$ -	\$ 90,222	\$ -	\$ 90,222
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	06-PU	10.553	133,205	-	133,205	-
National School Lunch Program	LL-P1,P4	10.555	317,885	-	317,885	-
Summer Food Service Program for Children	24-PU	10.559	37,649	-	37,649	-
<i>Total Child Nutrition Cluster</i>			<u>488,739</u>	<u>90,222</u>	<u>488,739</u>	<u>90,222</u>
Total U.S. Department of Agriculture			<u>488,739</u>	<u>90,222</u>	<u>488,739</u>	<u>90,222</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
<i>Special Education Cluster:</i>						
Special Education-Grants to States	6B-SF	84.027	582,746	-	532,607	-
Special Education-Preschool Grants	N/A	84.173	-	8,238	-	8,238
<i>Total Special Education Cluster</i>			<u>582,746</u>	<u>8,238</u>	<u>532,607</u>	<u>8,238</u>
Title I Grants to Local Educational Agencies	C1-S1	84.010	597,145	-	578,746	-
Safe and Drug Free Schools and Communities-State Grants	DR-S1	84.186	11,711	-	11,711	-
State Grants for Innovative Programs	C2-S1	84.298	5,338	-	5,599	-
Education Technology State Grants	TJ-S1	84.318	26,455	-	26,455	-
Reading First State Grants	RS-S1	84.357	535,185	-	646,605	-
Rural Education	RU-S1	84.358	16,622	-	13,342	-
Improving Teacher Quality State Grants	TR-S1	84.367	157,771	-	139,845	-
Total U.S. Department of Education			<u>1,932,973</u>	<u>8,238</u>	<u>1,954,910</u>	<u>8,238</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	2,493	-	-	-
Total U.S. Department of Health and Human Services			<u>2,493</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,424,205</u>	<u>\$ 98,460</u>	<u>\$ 2,443,649</u>	<u>\$ 98,460</u>

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

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – NON-CASH AWARDS

The School District had the following federal receipts and disbursements which were received and disbursed by the Perry-Hocking Educational Service Center on behalf of the School District for fiscal year 2007:

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Non-Cash Receipts</u>	<u>Non-Cash Disbursements</u>
Special Education-Preschool Grants	84.173	\$ 8,238	\$8,238

NOTE D – MEDICAL ASSISTANCE PROGRAM

The School District received \$2,493 during fiscal year 2007 associated with the Medicaid Community Alternative Funding System (CAFS), CFDA 93.778. This program ended effective June 30, 2005 and any monies received by the School District are attributed to residual payments for services rendered prior to June 30, 2005. Therefore, only CAFS monies received by the School District are included on the Schedule of Federal Awards Receipts and Expenditures.



Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lexington City School District, Perry County, Ohio (the School District) as of and for the fiscal year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Wilson, Shannon & Snow, Inc.

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New Lexington City School District
Perry County
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are included in the accompanying Schedule of Findings as items 2007-002 through 2007-003.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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

Wilson, Shuman & Snow, Inc.

Newark, Ohio
December 15, 2007



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

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

Compliance

We have audited the compliance of the New Lexington City School District, Perry County, Ohio, (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each major federal program for the fiscal year ended June 30, 2007. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the New Lexington City School District, Perry County, complied, in all material respects, with the requirements referred to above that are applicable to each major federal program for the fiscal year ended June 30, 2007.

Internal Control over Compliance

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

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New Lexington City School District
Perry County
Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with *OMB Circular A-133*
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A *control deficiency* in the School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control.

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

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

Wilson, Sherman & Sons, Inc.

Newark, Ohio
December 15, 2007

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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

JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for each major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in its internal control for each major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies\CFDA #84.010, Reading First\CFDA #84.357
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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

JUNE 30, 2007

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

Finding Number	2007-001
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The compilation and presentation of the financial statements and the related footnotes is the responsibility of management. This responsibility remains intact if management decides to outsource this function for efficiency purposes or any other reason. It is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and notes prior to audit. It is also important to note that independent auditors are not part of the entity's internal control structure and should not be relied upon by management to detect misstatements.

As a result of our audit, we identified a significant audit adjustment associated with reporting intergovernmental receivables. We provided this adjustment to management who subsequently corrected the misstatement. The misstatement is an indicator that the School District does not have sufficient internal control procedures in place related to financial reporting.

We recommend the School District develop and continue to monitor internal control procedures associated with the drafting and preparation of the financial statements and footnotes in order to enable management to identify, prevent, detect, and correct potential misstatement in the financial statements and footnotes. In addition, while developing these procedures management should reduce its reliability on the School District's auditors to perform this internal control procedures as auditors must remain independent.

Officials' Response:

The School District will develop and continue to monitor internal control procedures associated with the drafting and preparation of the financial statements and notes.

Finding Number	2007-002
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Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

The School District amended appropriations within the Food Service (fund 006), Self-Insurance (fund 024), District Managed Student Activity (fund 300), and Management Information System (fund 432) funds and did not certify the additional revenue with the County Budget Commission. Thus, appropriations exceeded estimated revenues within these funds as described in Finding Number 2007-003.

Although the School District has implemented controls to ensure budgetary compliance, we recommend the School District continue to monitor appropriations and estimated resources to determine that if adjustments to the original budgeted amounts occur that the appropriations are within estimated resources after any additional modifications are made.

Officials' Response:

The Treasurer will monitor estimated resources and appropriations throughout the year to insure compliance.

**NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY**

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

JUNE 30, 2007

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

Finding Number	2007-003
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Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources.

At June 30, 2007, appropriations exceeded estimated resources in the following funds by the amounts listed:

Fund	Amount of Estimated Resources	Amount of Appropriations	Amount Appropriations Exceed Estimated Resources
Food Service (006)	\$ 861,767	\$ 872,524	\$ 10,757
Self-Insurance (024)	2,321,013	2,872,591	551,578
District Managed Student Activity (300)	114,188	123,934	9,746
Management Information System (432)	5,341	6,474	1,133

The variances are due to the School District not amending estimated resources for anticipated increases in revenues at the end of the fiscal year.

Although the School District has implemented controls to ensure budgetary compliance, we recommend the School District continue to monitor estimated resources and appropriations and amend estimated resources throughout the fiscal year for all anticipated revenues.

Officials' Response:

The Treasurer will monitor estimates resources and appropriations throughout the year to insure compliance.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 22, 2008