

**LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1
DAWSON COUNTY, NEBRASKA**

FINANCIAL STATEMENTS

August 31, 2008

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

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SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Dawson County School District 24-0001 (Lexington Public Schools)

This section of the Lexington Public Schools' annual audit reports presents our discussion and analysis of the school district's financial performance during the fiscal year that ended on August 31, 2008. Please read it in conjunction with the district's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The School District has adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board "Basic financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Statement 34 established standards for external financial reporting for all state and local government entities, which includes government-wide financial statement, and fund financial statements.

This annual report consists of four parts: (1) Management's Discussion and Analysis; (2) the basic Financial Statements- Cash Basis; (3) Supplemental Schedules; and (4) information on the Single Audit (Federal Funds).

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately from business-type activities, which rely to an extent on fees and charges for support.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Proprietary funds are used to account for the School District's business-type activities. Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on going operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements. The School Lunch Fund is considered a proprietary fund.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the School District's own programs. The Activities Fund is a fiduciary fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data about the financial statements and School Districts commitments, contingencies and long-term debt obligations that are not reported in the cash basis financial statements. The statements are followed by a section

of Required Supplementary Information that further explains and supports the information in the financial statements.

FINANCIAL HIGHLIGHTS

- The district's total property assets increased through construction activity paid from the General Fund through and arrangements made with Lexington Public Schools Building Corporation for the completion of the construction of gymnasium and classroom addition to Morton Elementary School, and the construction of improvements of a classroom addition to our High School is over 80% completed.
- The district's General Fund Disbursements in 2007-2008 exceeded the prior year's disbursements by \$368,642, resulting in a 1.42% overall increase. Adjusting for the fluctuating High School and Morton addition expenses, General Fund Disbursements increased by \$1,422,553, or 6%. Of this amount, \$1,070,686 was expended on the Morton and High School expansion projects in 2007-2008 compared with \$2,070,686 in 2006-2007.
- The district's General Fund Receipts in 2007-2008 were \$1,900,652 over the prior year's revenue, an increase of 7.5%.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The largest single source of receipts for Lexington Public Schools is State Aid, \$15,307,837 for 2007-2008, which increased by \$ \$1,516,472 (11%) from the prior year. State sources accounted for 62% of the total general fund receipts, and federal revenue accounted for 13.4% of general fund receipts.

Property taxes as a source of revenue for the District accounted for 20.7% of the total General Fund Revenues. The amount of property taxes collected for 2007-2008 were \$31,859 more than the previous year.

The following table shows the property tax rates, by fund, for the 2004-2005 through 2007-2008 fiscal years. Levies are expressed in dollars and cents per \$100 of valuation. Using the following table the district total property tax on a \$100,000 property in 2007-2008 would be \$1,238.27 or \$18.31 less than the previous year.

	2004-2005 Levy	2005-2006 Levy	2006-2007 Levy	2007-2008 Levy	2008-2009 Levy
General Fund	1.02387	0.950864	0.944269	.945308	1.040016
Building Fund	0.078514	0.095724	0.098761	.098515	.008712
Bond Funds	0.219933	0.2117	0.209628	.194451	.192194
District Total	1.322317	1.258288	1.25658	1.23827	1.240918

General Fund Budgetary Highlights

The District's General Fund cash position for school year 2007-2008 decreased by \$464,574. This is shown by a difference in beginning cash balance, September 1, 2007 of \$10,415,651 and the ending cash balance of \$9,950,363. This reduction was anticipated and is due in large part to the cost of lease-purchase of additions to schools.

	2007-2008 Budget	2007-2008 Actual	Difference
Receipts			
Local Taxes	\$6,124,000	\$5,853,115	\$270,885
State Sources	\$16,331,755	\$16,856,475	-\$524,720
County Sources	\$150,000	\$222,093	-\$72,093
Other Federal	\$3,244,966	\$4,169,940	-\$924,974
Other Non-revenue	\$77,000	\$55,718	\$21,282
Subtotal	\$25,927,721	\$27,157,341	-\$1,229,620
Expenditures			
Instructional	\$17,309,000	\$16,059,975	\$1,249,025
Support Services	\$6,823,591	\$6,083,013	\$740,578
Federal & State Grants	\$4,000,000	\$3,273,731	\$726,269
Debt Services	\$128,000	\$14,908	\$113,092
Subtotal	\$28,260,591	\$25,431,627	\$2,828,964

Financial Analysis of the Other Funds

The following financial information pertains to the beginning and ending cash positions of the following funds: The Special Building Fund, Depreciation Fund, and Employee Benefit Fund.

	2007-08 Beginning	2007-2008 Ending	Difference
Special Building Fund	\$1,199,947	\$1,298,794	\$98,847
Depreciation Fund	\$890,760	\$1,441,365	\$550,605
Employee Benefits Fund	\$704,363	\$1,213,676	\$509,313

Debt Administration

At year-end, the Lexington Public Schools had \$5,560,000.00 outstanding principal debt in General Obligation Bonds.

Fiduciary Funds Report

The following report shows the District assets held in a trustee or agency capacity called the Lexington Public School Activity Funds. The total receipts include an additional

year-end transfer of \$46,000 made from the general fund to the activity fund which may make a transfer in 2008-2009 unnecessary.

Activity Funds	2007-2008 Budget	2007-2008 Actual	Difference
Beginning Balance		\$269,999	
Receipts	\$627,000	\$768,020	-\$141,020
Disbursements	\$725,000	\$779,075	-\$54,075
Ending Balance		\$258,944	-\$11,055

Proprietary Fund Report

The Lexington Public Schools Lunch Fund operating receipts and disbursements for providing services and producing and delivering goods in connection with the fund's principal ongoing operations shows an improved cash position.

Lunch Fund	2007-2008 Budget	2007-2008 Actual	Difference
Beginning Balance		\$391,433	
Receipts	\$1,519,798	\$1,114,314	\$405,484
Disbursements	\$1,333,827	\$1,229,810	\$104,017
Ending Balance		\$275,937	-115,496

Significant expenditures were made for the purchase of equipment for the new Morton kitchen were paid through the lunch fund

District's Financial Management

This financial report is designed to provide the citizens, taxpayers, students and bond-buyers a general overview of the District's finances and to demonstrate the District's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact the Business Office, 1610 N. Washington St., Lexington, NE 68850 or call (308) 324-4681, extension 19, or bbennett@esu10.org.



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INDEPENDENT AUDITORS' REPORT

Board of Education
Lexington Public Schools
School District No. 1
Lexington, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lexington Public Schools, School District No. 1, Dawson County, Nebraska (District), as of and for the year ended August 31, 2008, as listed in the table of contents. We also audited the combining nonmajor funds of the District as of and for the year ended August 31, 2008, as displayed in the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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


As discussed in Note 1, Lexington Public Schools, School District No. 1, Dawson County, Nebraska, prepares its financial statements on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as well as the combining nonmajor governmental funds of the District, as of August 31, 2008 and the respective changes in financial position – cash basis thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the cash basis of accounting. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.



Certified Public Accountants
Lexington, Nebraska

November 3, 2008

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

STATEMENT OF NET ASSETS - CASH BASIS

August 31, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Equivalents	12,873,954	275,937	13,149,891
Cash with County Treasurers	1,799,987	0	1,799,987
TOTAL ASSETS	14,673,941	275,937	14,949,878
NET ASSETS:			
Restricted for:			
Capital projects	1,298,794	0	1,298,794
Debt Service	751,485	0	751,485
Unrestricted	12,623,662	275,937	12,899,599
TOTAL NET ASSETS	14,673,941	275,937	14,949,878

See accompanying notes.

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

STATEMENT OF ACTIVITIES - CASH BASIS

Year Ended August 31, 2008

<u>Functions/Programs</u>	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instructional services	19,552,922	1,650,153	4,169,940
Support services	6,415,096	0	0
Capital outlay	3,219,982	0	0
Debt services	579,908	0	0
Interest expense	275,924	0	0
TOTAL GOVERNMENTAL ACTIVITIES	30,043,832	1,650,153	4,169,940
Business-type activities			
School Lunch	1,305,194	281,208	894,711
TOTAL GOVERNMENT	31,349,026	1,931,361	5,064,651

GENERAL RECEIPTS:

Taxes:

Property

Motor vehicle

County sources

State aid

Capital lease proceeds

Interest income

Miscellaneous

Transfers

TOTAL GENERAL RECEIPTS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

See accompanying notes.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business- type Activities	Total
(13,732,829)		(13,732,829)
(6,415,096)		(6,415,096)
(3,219,982)		(3,219,982)
(579,908)		(579,908)
(275,924)		(275,924)
<u>(24,223,739)</u>		<u>(24,223,739)</u>
	(129,275)	(129,275)
<u>(24,223,739)</u>	<u>(129,275)</u>	<u>(24,353,014)</u>
6,370,078	0	6,370,078
596,880	0	596,880
223,181	0	223,181
15,307,837	0	15,307,837
7,917	0	7,917
400,514	13,792	414,306
1,027,928	0	1,027,928
(45,987)	(13)	(46,000)
<u>23,888,348</u>	<u>13,779</u>	<u>23,902,127</u>
(335,391)	(115,496)	(450,887)
<u>15,009,332</u>	<u>391,433</u>	<u>15,400,765</u>
<u>14,673,941</u>	<u>275,937</u>	<u>14,949,878</u>

LEXINGTON PUBLIC SCHOOLS
 SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 CASH BASIS - GOVERNMENTAL FUNDS

August 31, 2008

	<u>General Fund</u>	<u>Depreciation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	8,526,569	1,441,365	2,906,021	12,873,955
Cash with County Treasurer	1,423,814	0	376,173	1,799,987
TOTAL ASSETS	9,950,383	1,441,365	3,282,194	14,673,942
 FUND BALANCES:				
Reserved for:				
Capital projects	0	0	1,298,794	1,298,794
Debt service	0	0	751,485	751,485
Unreserved:				
Designated	0	1,441,365	1,231,915	2,673,280
Undesignated	9,950,383	0	0	9,950,383
TOTAL FUND BALANCES	9,950,383	1,441,365	3,282,194	14,673,942

See accompanying notes.

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS

Year Ended August 31, 2008

	<u>General Fund</u>	<u>Depreciation</u>	<u>Nonmajor Governmental Funds</u>	<u>Eliminations</u>
RECEIPTS:				
Local sources:				
Property Taxes	5,633,067	0	1,333,891	0
Tuition	15,150	0	0	0
Miscellaneous	40,568	250	987,108	(987,108)
Interest income	220,048	39,747	140,719	0
County sources	222,093	0	1,088	0
State sources	16,856,475	0	86,366	0
Federal sources	4,169,940	0	0	0
TOTAL RECEIPTS	<u>27,157,341</u>	<u>39,997</u>	<u>2,549,172</u>	<u>(987,108)</u>
DISBURSEMENTS:				
Current:				
Instructional services	16,059,975	0	122,421	0
Support services:				
Pupil	1,055,197	0	0	0
Staff	355,234	0	0	0
General administration	549,004	0	0	0
School administration	1,406,975	0	0	0
Business	431,440	0	0	0
Building and grounds	1,954,642	0	0	0
Pupil transportation	330,521	0	0	0
State grants	184,346	0	0	0
Federal programs	3,273,731	0	0	0
Debt Service:				
Principal	14,908	0	565,000	0
Interest and other charges	0	0	275,925	0
Capital outlay	693,601	163,663	2,607,247	(987,108)
TOTAL DISBURSEMENTS	<u>26,309,574</u>	<u>163,663</u>	<u>3,570,593</u>	<u>(987,108)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	847,767	(123,666)	(1,021,421)	0

(Continued on next page)

Total
Governmental
Funds

6,966,958
15,150
40,818
400,514
223,181
16,942,841
4,169,940

28,759,402

16,182,396

1,055,197
355,234
549,004
1,406,975
431,440
1,954,642
330,521
184,346
3,273,731

579,908
275,925
3,464,511

30,043,830

(1,284,428)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
BALANCES - CASH BASIS - GOVERNMENTAL FUNDS CONTINUED**

Year Ended August 31, 2008

	<u>General Fund</u>	<u>Depreciation</u>	<u>Nonmajor Governmental Funds</u>	<u>Eliminations</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	7,917	0	0	0
Transfers in	13	674,271	600,000	0
Transfers out	<u>(1,320,271)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,312,341)</u>	<u>674,271</u>	<u>600,000</u>	<u>0</u>
 RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING SOURCES (USES)	 (464,574)	 550,605	 (421,421)	 0
 Fund balances - beginning	 <u>10,414,957</u>	 <u>890,760</u>	 <u>3,703,615</u>	 <u>0</u>
 FUND BALANCES - ENDING	 <u><u>9,950,383</u></u>	 <u><u>1,441,365</u></u>	 <u><u>3,282,194</u></u>	 <u><u>0</u></u>

See accompanying notes.

Total
Governmental
Funds

7,917
1,274,284
(1,320,271)

(38,070)

(1,322,498)

15,009,332

13,686,834

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

COMBINING STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS

August 31, 2008

	Capital Projects			
	Employee Benefits	Special Building	LPS Building Corporation	Student Fees
ASSETS:				
Cash and cash equivalents	1,213,676	1,153,386	7,900	10,339
Cash with County Treasurers	0	145,408	0	0
TOTAL ASSETS	1,213,676	1,298,794	7,900	10,339
FUND BALANCES:				
Reserved for:				
Capital projects	0	1,298,794	0	0
Debt service	0	0	0	0
Unreserved				
Designated	1,213,676	0	7,900	10,339
TOTAL FUND BALANCES	1,213,676	1,298,794	7,900	10,339

See accompanying notes.

Debt Service

<u>1993 Bonds</u>	<u>High School Bonds</u>	<u>Middle School Bonds</u>	<u>Total Governmental Funds</u>
90,926	263,763	166,031	2,906,021
<u>43,426</u>	<u>99,440</u>	<u>87,899</u>	<u>376,173</u>
<u><u>134,352</u></u>	<u><u>363,203</u></u>	<u><u>253,930</u></u>	<u><u>3,282,194</u></u>
0	0	0	1,298,794
134,352	363,203	253,930	751,485
<u>0</u>	<u>0</u>	<u>0</u>	<u>1,231,915</u>
<u><u>134,352</u></u>	<u><u>363,203</u></u>	<u><u>253,930</u></u>	<u><u>3,282,194</u></u>

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
BALANCES - CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS

Year Ended August 31, 2008

	Capital Projects			
	Employee Benefits	Special Building	LPS Building Corporation	Student Fees
RECEIPTS:				
Local sources:				
Taxes	0	524,121	0	0
Miscellaneous	0	0	987,108	0
Interest	31,734	56,532	27,200	486
County sources	0	645	0	0
State sources	0	33,319	0	0
TOTAL RECEIPTS	31,734	614,617	1,014,308	486
DISBURSEMENTS:				
Current:				
Support Services - general administration	122,421	0	0	0
Debt services:				
Principal	0	0	0	0
Interest and other charges	0	0	0	0
Capital Outlay	0	515,770	2,091,477	0
TOTAL DISBURSEMENTS	122,421	515,770	2,091,477	0
RECEIPTS OVER (UNDER) DISBURSEMENTS	(90,687)	98,847	(1,077,169)	486
OTHER FINANCING SOURCES (USES):				
Transfers in	600,000	0	0	0
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING SOURCES (USES)	509,313	98,847	(1,077,169)	486
Fund balances - beginning	704,363	1,199,947	1,085,069	9,853
FUND BALANCES - ENDING	1,213,676	1,298,794	7,900	10,339

See accompanying notes.

Debt Service

1993 Bonds	High School Bonds	Middle School Bonds	Total Governmental Funds
147,343	361,091	301,336	1,333,891
0	0	0	987,108
0	24,767	0	140,719
0	443		1,088
9,963	22,785	20,299	86,366
<u>157,306</u>	<u>409,086</u>	<u>321,635</u>	<u>2,549,172</u>
0	0	0	122,421
130,000	255,000	180,000	565,000
21,391	124,014	130,520	275,925
0	0	0	2,607,247
<u>151,391</u>	<u>379,014</u>	<u>310,520</u>	<u>3,570,593</u>
5,915	30,072	11,115	(1,021,421)
<u>0</u>	<u>0</u>	<u>0</u>	<u>600,000</u>
5,915	30,072	11,115	(421,421)
<u>128,437</u>	<u>333,131</u>	<u>242,815</u>	<u>3,703,615</u>
<u>134,352</u>	<u>363,203</u>	<u>253,930</u>	<u>3,282,194</u>

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

STATEMENT OF NET ASSETS - CASH BASIS
PROPRIETARY FUND

August 31, 2008

	<u>School Lunch Fund</u>
CURRENT ASSETS:	
Cash	<u>275,937</u>
NET ASSETS:	
Unrestricted	<u>275,937</u>

See accompanying notes.

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
NET ASSETS - CASH BASIS - PROPRIETARY FUND**

Year Ended August 31, 2008

	<u>School Lunch Fund</u>
OPERATING RECEIPTS:	
Charges for sales and services:	
Meals	257,820
Other food sales	23,387
TOTAL OPERATING RECEIPTS	<u>281,207</u>
 OPERATING DISBURSEMENTS:	
Salaries	410,566
Benefits	55,785
Food costs	676,298
Other operating expense	87,161
TOTAL OPERATING DISBURSEMENTS	<u>1,229,810</u>
 OPERATING LOSS	<u>(948,603)</u>
 NON-OPERATING RECEIPTS (DISBURSEMENTS):	
State sources	8,415
Federal sources	886,296
Interest income	13,792
Transfers out	(13)
Capital outlay	(75,383)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>833,107</u>
 CHANGE IN NET ASSETS	<u>(115,496)</u>
 Total net assets - beginning	<u>391,433</u>
 TOTAL NET ASSETS - ENDING	<u><u>275,937</u></u>

See accompanying notes.

LEXINGTON PUBLIC SCHOOLS
 SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

STATEMENT OF NET ASSETS - CASH BASIS
 FIDUCIARY FUND

August 31, 2008

	<u>Activities Funds</u>
ASSETS:	
Cash	258,944
NET ASSETS:	
Due to school organizations	258,944

STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS
 FIDUCIARY FUND

Year Ended August 31, 2008

ADDITIONS:	
Activity receipts	722,020
Transfer from general fund	46,000
TOTAL ADDITIONS	768,020
DEDUCTIONS:	
Activity disbursements	779,075
CHANGES IN NET ASSETS	(11,055)
Net assets - beginning	269,999
NET ASSETS - ENDING	258,944

See accompanying notes.

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government

Lexington Public Schools, School District No. 1, Dawson County, Nebraska (the District) provides public education from kindergarten through high school and is located in central Nebraska. It is governed by a six member Board of Education elected by residents of the District.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Reporting Entity

The basic financial statements report on the District as a whole. They include Lexington Public Schools and its component unit. The blended component unit reflects the financial information of the Lexington Public Schools Building Corporation. The board of the component unit is appointed by the District board. Its purpose is to seek, hold, purchase, lease, and otherwise encumber real or personal property. The services of the component unit are so intertwined with the District that it is in substance the same as the District and is reported as part of the District. Thus, the financial information of the component unit is blended in the District's financial statements.

Basis of Accounting

The government-wide and fund financial statements are presented using the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures which result from cash transactions. As a result, fixed assets, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Basis of Accounting (Continued)

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting as well as the fiduciary funds.

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

In the government-wide statements, the governmental activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, and financial position. All assets and liabilities arising from cash transactions (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

The Statement of Activities reports the gross and net cost of each of the District's functions. Gross expenses are reduced by related program revenues, and operating grants and contributions. Program revenues must be directly associated with the program or function. Operating grants include operation-specific and discretionary grants. The net costs of each function are also supported by general revenues (property taxes, certain intergovernmental revenues, etc.)

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, receipts and disbursements.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Financial Statements Continued

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities arising from cash transactions are generally included on the statements of assets, liabilities and fund balances. Capital assets acquired are accounted for as capital outlay. Debt proceeds (if any) are reported as other financing sources and payments of principal and interest are reported as expenditures. Their operating statements present sources and uses of available spendable financial resources during a given period. Fund balances are the measure of available spendable financial resources at the end of the period.

Proprietary funds are used to account for the District's business type activities. Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. The School Lunch Fund is considered a proprietary fund.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore, cannot be used to support the District's own programs. The Activities Fund is a fiduciary fund and receives transfers supporting athletic activities from the General Fund.

Fund Types-The accounts of the District are organized on the basis of funds which are grouped in the following fund types:

Governmental Fund Types:

General Fund-This fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all financing resources except those required by law, contractual agreement, or administrative action to be accounted for in other funds.

Employee Benefit Fund-This fund accounts for monies transferred from the General Fund that are being accumulated for future employee benefit payments and is reported as a nonmajor fund.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Governmental Fund Types (Continued):

Depreciation Fund-This fund accounts for monies transferred from the General Fund that are being accumulated to purchase capital items and is reported as a major fund.

Student Fees Fund – This fund accounts for fees for extracurricular activities and related disbursements and is reported as a nonmajor fund.

Capital Projects Funds:

Special Building Fund - This fund accounts for taxes levied and monies transferred from the General Fund that are specifically reserved for future building and improvement purchases and is reported as a nonmajor fund.

Qualified Capital Purpose Undertaking Fund -- This fund accounts for financial operations of the hazardous materials abatement and programs to eliminate accessibility barriers and is reported as a nonmajor fund.

Lexington Public Schools Building Corporation - This fund accounts for lease revenues from the General Fund that are specifically reserved for future building and improvement purchases and is reported as a nonmajor fund.

Debt Service Fund-This fund accounts for taxes levied and other revenue specifically reserved for the retirement of bonds and is reported as a nonmajor fund.

Proprietary Fund Types:

School Lunch Fund-This fund is designated to account for the operations of the District's lunch program and is reported as a major fund.

Fiduciary Fund Types:

Activities Fund - This fund is used to account for assets held by the District in a trustee capacity for various school organizations and activities which are self-supporting or partially self-supporting.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Financial Statement Amounts

Equity

In the government-wide statements, equity is classified as net assets and displayed in two components:

- 1) Restricted net assets – Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 2) Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

In the fund statements, equity is classified as fund balance and includes:

- 1) Reserved
- 2) Unreserved (designated and undesignated)

The Proprietary fund equity is classified the same as in the government-wide statements.

It is the District’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Receipts

The District receives significant funding from the State of Nebraska in the general fund. It comprises 62% of the general fund receipts.

Expenditures

Expenditures are classified by function for government-wide activities. In the governmental fund statements, expenditures are classified by character (current, capital outlay, debt service, and other activities).

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 2: INTERFUND BALANCES AND ACTIVITY

The transfers below are routine in nature and done by the District on an annual basis. Amounts reported as Interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and fiduciary activities. This amount is reported as a net amount in the General Receipts.

<u>Transfers Out:</u>	<u>Transfer In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Depreciation Fund</u>	<u>Nonmajor Funds</u>	
General	0	674,271	600,000	1,274,271
Lunch	13	0	0	13
Total	13	674,271	600,000	1,274,284

NOTE 3: CUSTODIAL CREDIT RISK – DEPOSITS - State law requires that all funds held in depositories be fully insured or collateralized. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. For financial reporting, \$13,669,345 is considered uninsured and fully collateralized.

NOTE 4: RESTRICTED CASH – The Capital Projects Fund has restricted cash and cash with county treasurer in the amount of \$1,298,794. Debt Service Funds have restricted cash of \$751,485.

NOTE 5: PROPERTY TAXES

Real estate taxes are levied December 1 of each year and become a lien on the real property January 1 of the next year. Personal property taxes on owned or leased property are assessed as of January 1 of each year and become a lien on all personal property owned as of December 31 of that year. The first half of both taxes is delinquent May 1 and the second half delinquent September 1 of the following year. Taxes not paid by the due dates become delinquent and interest is assessed at 14%.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 6: RETIREMENT PLAN:

The District contributes to the Nebraska School Employee Retirement System (NSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1221 N Street, Suite 325, PO Box 94816, Lincoln, NE 68509-4816 or by calling 1-800-245-5712.

Plan members were required to contribute 7.98%, 7.83% and 7.28% of their annual covered salary for the years ended August 31, 2006, 2007, and 2008 respectively. The District is required to contribute 101% of the employee contribution. The contribution requirements of plan members and the District are established by the Nebraska statutes. The District's contributions to NSERS for the years ending August 31, 2006, 2007 and 2008, were \$971,147, \$1,062,566, and \$1,052,450 respectively, equal to the required contributions for each year.

NOTE 7: RISK MANAGEMENT

The 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. The District is a member of the NASB All Lines Interlocal Cooperative Aggregate Pool (ALICAP), a public entity risk pool currently operating as a common risk management and insurance pool.

If the pool becomes insolvent or is otherwise unable to discharge its legal liabilities and other obligations, the District may be assessed by the pool for additional contributions.

The District has not paid any additional assessments to the pool in the last three fiscal years and no assessments are anticipated for the fiscal year 2009. The District has not had to pay out any amounts that exceeded coverage provided by the pool in the last three fiscal years.

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 8: COMMITMENTS AND CONTINGENCIES

Capital Leases

The following is an analysis of capital leases as of August 31, 2008:

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance at September 1, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at August 31, 2008</u>
Vehicles	Apr-10	9.69%	0	7,917	0	7,917
Notebook computers	Jun-08	5.973%	6,160	0	6,160	0
TOTALS			<u>6,160</u>	<u>0</u>	<u>6,160</u>	<u>7,917</u>

The following is a schedule of the future minimum lease payments and the present value of the net minimum lease payments as of August 31, 2008:

<u>Year Ending</u>	<u>Capital Leases</u>
August 31, 2009	4,549
August 31, 2010	4,598
Less: amount representing interest	<u>(1,230)</u>
Present value of future minimum lease payments	<u>7,917</u>

Bonds Payable

The following is a summary of the general obligation indebtedness for Lexington Public Schools, School District No. 1, Dawson County, Nebraska, for the year ended August 31, 2008:

<u>Description</u>	<u>Balance at September 1, 2007</u>	<u>Issued (Retired)</u>	<u>Balance at August 31, 2008</u>
Date issued: August 1, 2002			
Dates due: August 31, 2004 through August 31, 2016			
Interest: 2.9% to 5.0%			
Original issue: 9,145,000	<u>6,125,000</u>	<u>(565,000)</u>	<u>5,560,000</u>

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 8: COMMITMENTS AND CONTINGENCIES (CONTINUED):

Note Payable

<u>Description</u>	<u>Balance at September 1, 2007</u>	<u>Note Payments</u>	<u>Balance at August 31, 2008</u>
Nebraska Energy Office			
Date of note: June 1, 1997			
Due date: June 1, 2011			
Interest: none			
Security: Energy equipment/materials			
Semi-annual payments: \$3,072	<u>24,576</u>	<u>6,144</u>	<u>18,432</u>

Future maturities for the above bonds and note are as follows:

<u>Year Ended August 31,</u>	<u>Bond Principal</u>	<u>Note Principal</u>	<u>Interest</u>	<u>Total</u>
2009	590,000	6,144	252,670	848,814
2010	620,000	6,144	227,400	853,544
2011	635,000	6,144	199,144	840,288
2012	675,000	0	168,031	843,031
2013	705,000	0	134,375	839,375
2014-2016	2,335,000	0	178,875	2,513,875
TOTAL	<u>5,560,000</u>	<u>18,432</u>	<u>1,160,495</u>	<u>6,738,927</u>

Operating Leases

The District has the following noncancellable operating leases for a variety of equipment:

<u>Starting Date</u>	<u>Expiration Date</u>	<u>Monthly Payments</u>
May, 2004	March, 2009	592
December, 2004	November, 2009	639
February, 2007	January, 2012	10,024

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 8: COMMITMENTS AND CONTINGENCIES (CONTINUED):

Minimum future lease payments under these noncancellable operating leases as of August 31, 2008, for each of the next five years and in the aggregate are:

<u>Year Ending August 31,</u>	<u>Amount</u>
2009	132,093
2010	122,201
2011	120,285
2012	<u>50,119</u>
Total	<u>424,698</u>

Rent expense for the year ended August 31, 2008, was \$125,126.

Nebraska Unemployment Insurance Program – The District has elected under the Nebraska Unemployment Insurance Program to be a "reimbursable employer". Accordingly, the School District is liable for payments to reimburse the state unemployment agency for benefits paid to former employees. The maximum payment to reimburse the state unemployment agency under current statute would not exceed \$7,748 (26 weeks @ \$298 per week) per claimant.

Federal and State Award Programs

The District receives funds under various federal and state grant programs and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of noncompliance. Management believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.

Construction Commitments

The District has the following commitments with respect to construction projects as of August 31, 2008:

<u>Project</u>	<u>Remaining Commitment</u>
High school addition	614,000

REQUIRED
SUPPLEMENTARY INFORMATION

**LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND**

Year Ended August 31, 2008

	<u>Original/ Final Budget</u>	<u>Actual</u>
Total available resources before property taxes	30,867,426	31,947,161
Total real/personal property tax	5,250,000	5,633,067
Total disbursements	<u>(28,748,076)</u>	<u>(27,629,845)</u>
Necessary cash reserve	<u>7,369,350</u>	<u>9,950,383</u>

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
DEPRECIATION FUND**

Year Ended August 31, 2008

	<u>Original/ Final Budget</u>	<u>Actual</u>
Total available resources before property taxes	891,882	1,605,028
Total real/personal property tax	0	0
Total disbursements	<u>(891,882)</u>	<u>(163,663)</u>
Necessary cash reserve	<u>0</u>	<u>1,441,365</u>

See accompanying notes to budgetary comparison schedules.

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO BUDGETARY COMPARISON SCHEDULES

August 31, 2008

BUDGET PROCESS AND PROPERTY TAXES

The appropriated budget adopted by the District is prepared on a cash basis.

Total available resources before property taxes include the beginning fund balance.

SINGLE AUDIT SECTION

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	<u>Expenditures</u>
<u>U. S. Department of Agriculture:</u>		
Passed through Nebraska Department of Education:		
Cluster Programs:		
National School Lunch Program	10.555	858,266
Summer Food Services Program	10.559	28,030
Total Cluster Program		886,296
Passed through Nebraska Department of Social Services:		
Food Donation Program	10.550	38,765
Total Department of Agriculture		925,061
<u>U. S. Department of Education:</u>		
Mentoring Grant	84.184	337,404
Migrant Even Start	84.214	328,098
Total Direct - U.S. Department of Education		665,502
Passed through Educational Service Unit 10:		
Interagency Planning Grant	84.181	500
Title II, Part D	84.318	100
Title II, Part A	84.367	29,200
		29,800
Passed through Southeast Kansas Education Service Center - Greenbush:		
Migrant Education Even Start	84.214	33,362
Passed through Educational Service Unit 8:		
Title II, Part B	84.366	4,400

(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended August 31, 2008

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	Federal CFDA <u>Number</u>	<u>Expenditures</u>
<u>U. S. Department of Education (Continued):</u>		
Passed through Nebraska Department of Education:		
Title I, Part A	84.010	1,042,711
Title I - Part C (Migrant)	84.011	566,071
IDEA Base	84.027	143,545
IDEA Enrollment/Poverty	84.027	415,577
Career/Technical Education - Basic Grants	84.048	31,892
IDEA Base Preschool	84.173	10,832
Safe and Drug Free Schools	84.186	8,644
21st Century After School Learning Center	84.287	149,947
Title V	84.298	6,795
Title II, Part D	84.318	11,470
Title III	84.365	73,648
Title II, Part A	84.367	49,123
Star Grant - NCLB	84.369	25,000
		<u>2,535,255</u>
Total Department of Education		<u>3,268,319</u>
<u>U. S. Department of Health and Human Services:</u>		
Passed through Nebraska Association of School Boards:		
Medical Administrative Outreach	93.778	537,512
Passed through Nebraska Department of Health & Human Services:		
Medicaid in Public Schools	93.778	10,851
		<u>10,851</u>
Total Department of Health and Human Services		<u>548,363</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>4,741,743</u>

See accompanying notes to schedule of expenditures of federal awards

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lexington Public Schools and is presented on the cash basis of accounting.

NOTE B: REPORTING ENTITY

The District, for purposes of the Schedule of Expenditures of Federal Awards, includes all funds for which the District is financially accountable.

NOTE C: PASS THROUGH AWARDS

The District receives certain federal awards in the form of pass-through awards from the State of Nebraska and other various agencies. Such amounts received as pass-through awards are specifically identified on the Schedule of Expenditures of Federal Awards.

NOTE D: FOOD DISTRIBUTION

The National School Lunch Program involves both cash and non-cash awards to the District. Such non-cash awards consist of donated commodities which are separately identified in the Schedule of Expenditures of Federal Awards.

NOTE E: CONTINGENCIES

The District receives funds under various federal grant programs and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of noncompliance. Management believes that they have complied with all material aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.



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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
Lexington Public Schools
School District No. 1
Dawson County, Nebraska

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information as well as the combining nonmajor funds of Lexington Public Schools, School District No. 1, Dawson County, Nebraska, as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2008. 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. Our report on the financial statements differed from the standard report because the District's financial statements were prepared on the cash basis of accounting (which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control of 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 to be 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 District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described as item 2008-1, 2008-02 and 2008-3, in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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 District's internal control.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompany schedule of findings and questioned costs, we consider items 2008-1 and 2008-02 to be material weaknesses.

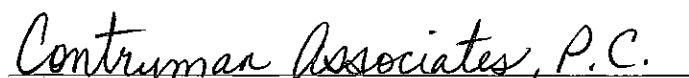
Compliance and Other Matters

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs.

We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the board of education, management, Nebraska Department of Education, State Auditor, state and federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountants
Lexington, Nebraska

November 3, 2008

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2008

SECTION I-SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
• Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	None

Identification of major programs:	Name of Federal Program or Cluster
CFDA Number	
10.555	National School Lunch Program
10.559	Summer Food Service Program
84.010	Title I, Part A
84.011	Title I, Part C - Migrant
84.027 & 84.173	IDEA, Part B and Preschool
84.184	Mentoring Grant
84.214	Migrant Even Start Program
93.778	Medical Assistance Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Low risk auditee?	No
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(Continued on next page)

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended August 31, 2008

SECTION II-FINANCIAL STATEMENT FINDINGS

Finding 2008 - 1

Condition: Activity Funds - Lexington Public Schools does not have adequate procedures in place to ensure that all transactions are recorded in the books and that reports are provided to the School Board in a timely manner.

Management Response: Lexington Public Schools will develop procedures for the Activity Funds to ensure that transactions are recorded in the books and that reports are provided to the School Board in a timely manner.

Finding 2008-2

Condition: Activity Funds –Deposits by Lexington Public Schools in their Activity Funds are not made in a timely manner.

Management Response: Lexington Public Schools will develop policies and procedures regarding the frequency of deposits to ensure that deposits are made timely in the future.

Finding 2008-3

Condition: Activity Funds - Lexington Public School does not adequately monitor activities to insure that balances of activities remain positive.

Management Response: Lexington Public Schools will develop policies and procedures to monitor the balances of activities and ensure that they don't over expend their balances.



CONTRYMAN ASSOCIATES, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Lexington Public Schools
School District No. 1
Dawson County, Nebraska

Compliance

We have audited the compliance of Lexington Public Schools, School District No. 1 with types of compliance requirements describe in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB 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 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 of the District's compliance with those requirements.

In our opinion, Lexington Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2008.

Internal Control Over Compliance

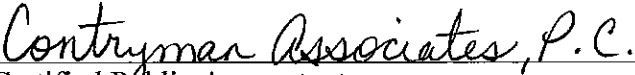
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control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

A control deficiency in an entity'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 federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity'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 entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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 the board of education, finance committee, management, Nebraska Department of Education, State Auditor, federal and state awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than those specified parties.



Certified Public Accountants
Lexington, Nebraska

November 3, 2008

LEXINGTON PUBLIC SCHOOLS
SCHOOL DISTRICT NO. 1, DAWSON COUNTY, NEBRASKA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2008

Finding 2007 - 1

Condition: Lexington Public Schools does not have adequate procedures in place to ensure that all transactions are recorded in the books that clear the bank. The District needs to reconcile the general ledger in a timely manner to the bank accounts to ensure that revenue direct deposited and interest revenue from certificates of deposits are recorded.

Status: Lexington Public Schools has developed procedures to ensure that all transactions are recorded in the books in a timely and appropriate manner.

Finding 2007-2

Condition: Lexington Public Schools does not have review policies and procedures relating to the complete recording of transactions.

Status: Lexington Public Schools has developed procedures review the recording of transactions

Finding 2007-3

Condition: During the current year, Lexington Public School pooled some of their cash accounts. The District does not have review procedures in place to ensure transactions are recorded in the correct fund.

Status: Lexington Public Schools has developed procedures and obtained training for employees to properly code pooled funds.