



Mary Taylor, CPA
Auditor of State

VILLAGE OF LEXINGTON
RICHLAND COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Lexington
Richland County
44 West Main Street
Lexington, Ohio 44904

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Mary Taylor, CPA
Auditor of State

August 7, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lexington
Richland County
44 West Main Street
Lexington, Ohio 44904

To the Village Council:

We have audited the accompanying financial statements of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village'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 the Comptroller General of the United States' *Government Auditing Standards*. 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 opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Lexington, Richland County, Ohio, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As further described in Note 2, the Village reclassified certain funds from Debt Service and Capital Projects to Enterprise Funds during 2008 and 2007.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2009, on our consideration of the Village'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. 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 7, 2009

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Local Taxes	\$254,344	\$383,149			\$637,493
Municipal Income Tax	1,367,024				1,367,024
Intergovernmental	213,097	413,673			626,770
Special Assessments	56	75			131
Charges for Services	607	2,365			2,972
Fines, Licenses and Permits	63,060	808			63,868
Earnings on Investments	21,397	2,082			23,479
Donations and Contributions	1,100	34,935			36,035
Miscellaneous	3,601	16,265			19,866
Total Cash Receipts	<u>1,924,286</u>	<u>853,352</u>	<u>\$0</u>	<u>\$0</u>	<u>2,777,638</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	915,183	164,173			1,079,356
Public Health Services		100,290			100,290
Leisure Time Activities	210,567	215,573			426,140
Community Environment	30,972	41,320			72,292
Transportation		653,911			653,911
General Government	594,807	7,604			602,411
Debt Service:					
Redemption of Principal	5,691	78,778			84,469
Interest and Fiscal Charges		1,803			1,803
Total Cash Disbursements	<u>1,757,220</u>	<u>1,263,452</u>	<u>0</u>	<u>0</u>	<u>3,020,672</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>167,066</u>	<u>(410,100)</u>	<u>0</u>	<u>0</u>	<u>(243,034)</u>
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets	1,626	2,510			4,136
Transfers-In	47	279,750			279,797
Transfers-Out	(279,750)		(47)		(279,797)
Advances-In	85,000	135,000			220,000
Advances-Out	(135,000)	(85,000)			(220,000)
Total Other Financing Receipts/(Disbursements)	<u>(328,077)</u>	<u>332,260</u>	<u>(47)</u>	<u>0</u>	<u>4,136</u>
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements and Other Financing Disbursements	(161,011)	(77,840)	(47)	0	(238,898)
Fund Cash Balances, January 1	812,453	219,058	47	276	1,031,834
Fund Cash Balances, December 31	<u><u>\$651,442</u></u>	<u><u>\$141,218</u></u>	<u><u>\$0</u></u>	<u><u>\$276</u></u>	<u><u>\$792,936</u></u>
Reserve for Encumbrances, December 31	<u>\$853</u>	<u>\$3,748</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,601</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$943,728		\$943,728
Fines, Licenses and Permits	27		27
Miscellaneous	499		499
Total Operating Cash Receipts	944,254	\$0	944,254
Operating Cash Disbursements:			
Personal Services	299,768		299,768
Travel Transportation	14,067		14,067
Contractual Services	151,565		151,565
Supplies and Materials	57,772		57,772
Refunds	382		382
Other	3,475		3,475
Total Operating Cash Disbursements	527,029	0	527,029
Operating Income	417,225	0	417,225
Non-Operating Cash Receipts:			
Fines and Forfeitures		72,152	72,152
Intergovernmental	152,566		152,566
Special Assessments	196		196
Loan Proceeds	1,488,554		1,488,554
Total Non-Operating Cash Receipts	1,641,316	72,152	1,713,468
Non-Operating Cash Disbursements:			
Capital Outlay	1,888,831		1,888,831
Redemption of Principal	88,650		88,650
Interest and Other Fiscal Charges	17,745		17,745
Distribution of Fines		71,717	71,717
Total Non-Operating Cash Disbursements	1,995,226	71,717	2,066,943
Net Receipts Over Disbursements	63,315	435	63,750
Fund Cash Balances, January 1	399,820	5,528	405,348
Fund Cash Balances, December 31	\$463,135	\$5,963	\$469,098
Reserve for Encumbrances, December 31	\$266	\$0	\$266

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Local Taxes	\$275,622	\$380,317			\$655,939
Municipal Income Tax	1,434,083				1,434,083
Intergovernmental	199,072	403,281			602,353
Charges for Services	740	7,670			8,410
Fines, Licenses and Permits	58,587	280			58,867
Earnings on Investments	37,145	1,017			38,162
Donations and Contributions		28,224			28,224
Miscellaneous	20,470	15,095			35,565
	<u>2,025,719</u>	<u>835,884</u>	<u>\$0</u>	<u>\$0</u>	<u>2,861,603</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
Security of Persons and Property	905,580	139,950			1,045,530
Public Health Services		61,484			61,484
Leisure Time Activities	206,480	88,156			294,636
Community Environment	35,902	20,017			55,919
Transportation		618,877			618,877
General Government	565,303	8,454			573,757
Debt Service:					
Redemption of Principal	8,300	60,948			69,248
Interest and Fiscal Charges		2,497			2,497
Capital Outlay		6,867			6,867
	<u>1,721,565</u>	<u>1,007,250</u>	<u>0</u>	<u>0</u>	<u>2,728,815</u>
Total Cash Disbursements					
Total Cash Receipts Over/(Under) Cash Disbursements	304,154	(171,366)	0	0	132,788
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets	3,625	1,201			4,826
Transfers-In		243,359			243,359
Transfers-Out	(262,500)	(859)			(263,359)
Advances-In	163,500	120,450			283,950
Advances-Out	(130,450)	(153,500)			(283,950)
	<u>(225,825)</u>	<u>210,651</u>	<u>0</u>	<u>0</u>	<u>(15,174)</u>
Total Other Financing Receipts/(Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	78,329	39,285	0	0	117,614
Fund Cash Balances, January 1 (restated)	734,124	179,773	47	276	914,220
Fund Cash Balances, December 31	<u><u>\$812,453</u></u>	<u><u>\$219,058</u></u>	<u><u>\$47</u></u>	<u><u>\$276</u></u>	<u><u>\$1,031,834</u></u>
Reserve for Encumbrances, December 31	<u>\$791</u>	<u>\$4,455</u>	<u>\$0</u>	<u>\$0</u>	<u>\$5,246</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$898,558		\$898,558
Fines, Licenses and Permits	320		320
Miscellaneous	4,158		4,158
Total Operating Cash Receipts	<u>903,036</u>	<u>\$0</u>	<u>903,036</u>
Operating Cash Disbursements:			
Personal Services	281,169		281,169
Travel Transportation	9,605		9,605
Contractual Services	168,267		168,267
Supplies and Materials	60,341		60,341
Refunds	678		678
Other	9,414		9,414
Total Operating Cash Disbursements	<u>529,474</u>	<u>0</u>	<u>529,474</u>
Operating Income	<u>373,562</u>	<u>0</u>	<u>373,562</u>
Non-Operating Cash Receipts:			
Fines and Forfeitures		73,538	73,538
Intergovernmental	194,606		194,606
Special Assessments	4,908		4,908
Loan Proceeds	38,177		38,177
Sale of Fixed Assets	94		94
Total Non-Operating Cash Receipts	<u>237,785</u>	<u>73,538</u>	<u>311,323</u>
Non-Operating Cash Disbursements:			
Capital Outlay	405,730		405,730
Redemption of Principal	116,103		116,103
Interest and Other Fiscal Charges	20,835		20,835
Distribution of Fines		68,010	68,010
Total Non-Operating Cash Disbursements	<u>542,668</u>	<u>68,010</u>	<u>610,678</u>
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	68,679	5,528	74,207
Transfers-In	20,000		20,000
Advances-In	10,000		10,000
Advances-Out	(10,000)		(10,000)
Net Receipts Over Disbursements	88,679	5,528	94,207
Fund Cash Balances, January 1 (restated)	<u>311,141</u>	<u>0</u>	<u>311,141</u>
Fund Cash Balances, December 31	<u>\$399,820</u>	<u>\$5,528</u>	<u>\$405,348</u>
Reserve for Encumbrances, December 31	<u>\$14,798</u>	<u>\$0</u>	<u>\$14,798</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of Lexington, Richland County, Ohio, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and by its Citizen-approved Village Charter. A publicly-elected seven-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village's fire and emergency medical protection is provided by Troy Township.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at the amount reported by the State Treasurer.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Streets Maintenance Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Street Levy Fund – This fund receives general and tangible personal property tax money for constructing, maintaining, and repairing Village streets.

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bond and note debt. The Village had the following Debt Service Fund:

Orchard Park Bond Fund - This fund was used to accumulate resources for the payment of bonds obtained to finance road repair, maintenance, and improvement projects surrounding Orchard Park. This fund was closed out during 2008.

4. Capital Projects Fund

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following capital projects fund:

TEP Grant Fund - This fund was used to receive grant funds for transportation enhancement of the downtown area. This fund had no activity in 2008 or 2007.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Fund

Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for its Mayor's Court which receives money from fines and forfeitures.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

2. Fund Type Reclassifications

During 2008 and 2007, the Village reclassified certain debt service funds and capital projects funds into the water and sewer enterprise funds since the primary purpose of these funds was related to water and sewer activities. These reclassifications had the following effect on the cash fund balances previously reported.

<u>Cash Fund Balance:</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>
December 31, 2006	\$(114,870)	\$154,365	\$271,969
Fund Reclassifications	114,917	(154,089)	39,172
January 1, 2007 (restated)	<u>\$47</u>	<u>\$276</u>	<u>\$311,141</u>

3. Equity in Pooled Deposits and Investments

The Village maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$527,593	\$725,081
Certificates of deposit	340,391	327,892
Total deposits	<u>867,984</u>	<u>1,052,973</u>
STAR Ohio	394,050	384,209
Total deposits and investments	<u>\$1,262,034</u>	<u>\$1,437,182</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. Budgetary Activity

Budgetary activity for the years ended December 31, 2008 and 2007 follows:

<u>2008 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$1,986,050	\$2,010,959	\$24,909
Special Revenue	1,215,655	1,270,612	54,957
Enterprise	1,160,800	2,585,570	1,424,770
Total	<u>\$4,362,505</u>	<u>\$5,867,141</u>	<u>\$1,504,636</u>

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

4. Budgetary Activity (Continued)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,292,466	\$2,172,823	\$119,643
Special Revenue	1,546,739	1,352,200	194,539
Debt Service	0	47	(47)
Enterprise	6,101,604	2,522,521	3,579,083
Total	\$9,940,809	\$6,047,591	\$3,893,218

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,753,103	\$2,192,844	\$439,741
Special Revenue	1,033,082	1,200,894	167,812
Enterprise	5,200,245	1,170,821	(4,029,424)
Total	\$7,986,430	\$4,564,559	(\$3,421,871)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,288,567	\$2,115,306	\$173,261
Special Revenue	1,690,965	1,166,064	524,901
Enterprise	2,595,048	1,096,940	1,498,108
Total	\$6,574,580	\$4,378,310	\$2,196,270

Noncompliance:

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2008 and 2007.

Contrary to Ohio Rev. Code Section 5705.42, the Village did not initially record Ohio Public Works Commission and Ohio Water Development Water Authority on-behalf grants and loans as a receipt and disbursement in the Village's accounting records.

Contrary to Ohio Rev. Code Section 5705.36(A)(4), total appropriations exceeded total actual resources in six funds at December 31, 2008 and in eight funds at December 31, 2007.

Contrary to Ohio Rev. Code Section 5705.39, total appropriations exceeded total estimated resources in eight funds at December 31, 2008 and in nine funds at December 31, 2007.

Contrary to Ohio Rev. Code Section 5705.14, 5705.15 and 5705.16, the Village transferred moneys from funds other than the General Fund without Court of Common Pleas approval.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

4. Budgetary Activity (Continued)

Contrary to Ohio Rev. Code Section 5705.10(H), the Village advanced moneys between funds which were not consistent with the purposes for which the funds were established. In addition, at December 31, 2008 and 2007, there were two funds and one fund, respectively, with negative fund balances.

5. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

6. Local Income Tax

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. The Village offers up to a 0.5 percent reciprocity credit on all income taxed by another municipality.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

7. Capital Leases

In prior years and in the current year, the Village entered into various capital leases for equipment. Future minimum lease payments are as follows:

Year ending December 31:	<u>Phone System</u>	<u>Truck</u>	<u>Wheel Loader</u>
2008	\$8,532	\$13,000	\$18,463
2009	5,688	13,000	18,463
2010		13,000	18,463
2011		13,000	18,463
Total minimum payments required	<u>14,220</u>	<u>52,000</u>	<u>73,852</u>
Less: amount representing interest	0	(5,245)	0
Future minimum lease payments	<u><u>\$14,220</u></u>	<u><u>\$46,755</u></u>	<u><u>\$73,852</u></u>

8. Debt

Debt outstanding at December 31, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note	\$18,635	5.78%
OPWC (Water Main Replacement)	50,414	0.00%
OPWC (Water Treatment Plant Upgrade)	650,759	0.00%
OPWC (Water Storage and Bridge Replacement)	65,544	0.00%
Various Purpose Bonds, Series 2004	365,000	2.45 - 4.75%
Ohio Water Development Authority Loan	875,972	4.65 - 4.77%
Total	<u><u>\$2,026,324</u></u>	

The promissory note with Mechanics Bank was entered into to finance road equipment. This note will be repaid in annual installments of \$10,107, with 5.78 percent interest through April 2010. The note is collateralized by the equipment.

The Ohio Public Works Commission (OPWC) (Water Main Replacement) Loan was entered into to finance the replacement of water lines. This loan will be repaid in semi-annual installments of \$1,327, with no interest through January 2028. The Loan is collateralized by the Village's taxing authority.

The Ohio Public Works Commission (Water Treatment Plant Upgrade) Loan was entered into to finance the upgrade of water lines. This project was not completed as of December 31, 2008, and therefore, the repayment terms have not yet been determined. The estimated project total is \$749,940. The Loan is collateralized by the Village's taxing authority.

The Ohio Public Works Commission (Water Storage and Bridge Replacement) Loan was entered into to finance a water tank, pumping station and bridge replacement project. This loan will be repaid in semi-annual installments of \$7,282, with no interest through July 2013. The Loan is collateralized by the Village's taxing authority.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

8. Debt (Continued)

The Various Purpose Bonds, Series 2004 were entered into to finance certain improvements to the municipal water system. The bonds are general obligation of the Village and bear interest at a variable rate of 2.45 percent to 4.75 percent. The bonds are collateralized by the Village's taxing authority.

The Ohio Water Development Authority Loan was entered into to finance water and sewer plant expansion. This project was not completed as of December 31, 2008, and therefore, the repayment terms have not yet been determined. The estimated project total is \$4,420,000. The Loan is collateralized by the Village's taxing authority.

Amortization of the above debt and completed OPWC loans, including interest, follows:

Year ended December 31:	Promissory Note	OPWC (Water Main Replacement)	OPWC (Water Storage and Bridge Replacement)	Various Purpose Bonds, Series 2004
2009	\$10,107	\$2,653	\$14,566	\$70,823
2010	10,107	2,653	14,566	73,760
2011		2,653	14,566	71,360
2012		2,653	14,566	68,560
2013		2,653	7,280	70,360
2014-2018		13,265		69,087
2019-2023		13,265		
2024-2027		10,619		
Total	<u>\$20,214</u>	<u>\$50,414</u>	<u>\$65,544</u>	<u>\$423,950</u>

9. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OP&F participants contributed 10 percent of their wages. For 2008 and 2007, the Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages. For 2008 and 2007, OPERS members contributed 10 percent and 9.5 percent, respectively, of their gross salaries and the Village contributed an amount equaling 14 percent and 13.85 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

10. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

11. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Mary Taylor, CPA

Auditor of State

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

Village of Lexington
Richland County
44 West Main Street
Lexington, Ohio 44904

To the Village Council:

We have audited the financial statements of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated August 7, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and the Village reclassified certain funds' fund types. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village'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 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 Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-002 and 2008-005 through 2008-009 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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 material weaknesses. Of the significant deficiencies described above, we believe finding numbers 2008-002 and 2008-005 through 2008-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 7, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-006.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 7, 2009.

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

We intend this report solely for the information and use of management and the Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 7, 2009

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

52 percent of expenditures tested were not certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

FINDING NUMBER 2008-001 (Continued)

Noncompliance Citation (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: The current use of individual purchase orders (PO's) will be reviewed in the future to include "Then and Now Certificates" and "Blanket Certificates" to properly and timely encumber funds.

FINDING NUMBER 2008-002

Noncompliance/Material Weakness

Ohio Rev. Code Section 5705.42 requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2008, the Village received \$875,972 of Ohio Water Development Authority (OWDA) moneys for wastewater treatment plant improvements. Under the terms of this agreement, OWDA makes some project payments directly to the vendor/contractor(s) on the Village's behalf. Of the \$875,972 of OWDA moneys in 2008, the Village did not recognize \$829,342 as receipts and disbursements in their general ledger, thus understating their receipts and disbursements. An adjustment was made to the financial statements to recognize these receipts and disbursements.

In 2008, the Village received \$783,209 of Ohio Public Works Commission (OPWC) moneys for water and wastewater treatment plant improvements. Under the terms of these agreements, OPWC makes some project payments directly to the vendor/contractor(s) on the Village's behalf. Of the \$783,209 of OPWC moneys the Village did not recognize \$18,062 as receipts and disbursements in their general ledger, thus understating their receipts and disbursements. The \$18,062 was reported to management as an unadjusted item.

Any payments made on behalf of the Village by another party should be recorded by the Village as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. The Village should refer to Auditor of State Bulletin 2002-004 for additional guidance.

Officials' Response: Funds granted and funds disbursed direct to vendors i.e.: from OWDA and OPWC have been corrected in 2009, to properly record "Non Cash" funds received and disbursed in the books of account.

FINDING NUMBER 2008-003

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(4) requires upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At December 31, 2008, total appropriations exceeded total actual resources (fund balance plus actual receipts) as follows:

Funds	Total Actual Resources	Total Appropriations	Variance
<u>Special Revenue Funds:</u>			
Street Maintenance	\$451,197	\$505,891	(\$54,694)
State Highway	20,164	21,930	(1,766)
Park Levy	226,536	324,171	(97,635)
Permissive Sales Tax	73,072	81,430	(8,358)
Gifts & Donations	6,874	7,250	(376)
<u>Enterprise Fund:</u>			
Sewer	1,397,232	4,145,069	(2,747,837)

At December 31, 2007, total appropriations exceeded total actual resources (fund balance plus actual receipts) as follows:

Funds	Total Actual Resources	Total Appropriations	Variance
<u>Special Revenue Funds:</u>			
Street Levy	\$294,182	\$298,000	(\$3,818)
Park Levy	145,908	245,900	(99,992)
Permissive Sales Tax	45,812	335,800	(289,988)
Special Inspection	7,593	8,850	(1,257)
Depot Senior Center	80,525	86,800	(6,275)
Dare	193	1,500	(1,307)
<u>Enterprise Funds:</u>			
Sewer	519,409	643,560	(124,151)
Water	871,607	1,884,659	(1,013,052)

Village Council should monitor appropriations versus available resources to help avoid overspending. Additionally, if actual revenues are less than expected a reduced certificate of estimated resources should be obtained from the County Auditor and appropriations should be reduced accordingly.

Officials' Response: Non Cash Funds and Non Cash expenditures from OWDA and OPWC were not handled/recorded properly – as noted in Finding Number 2008-002. This recording omission was noted and had been corrected during 2009.

FINDING NUMBER 2008-004

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires total appropriations from each fund to not exceed total estimated fund resources. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

At December 31, 2008, total appropriations exceeded total estimated resources as follows:

<u>Funds</u>	<u>Total Estimated Resources</u>	<u>Total Appropriations</u>	<u>Variance</u>
<u>Special Revenue Funds:</u>			
Street Maintenance	\$424,259	\$505,891	(\$81,632)
State Highway	21,107	21,930	(823)
Park Levy	202,471	324,171	(121,700)
Permissive Sales Tax	74,081	81,430	(7,349)
Depot Senior Center	88,541	103,855	(15,314)
Festival	19,423	37,600	(18,177)
<u>Enterprise Funds:</u>			
Sewer	554,672	4,145,069	(3,590,397)
Water	1,516,109	1,916,477	(400,368)

At December 31, 2007, total appropriations exceeded total estimated resources as follows:

<u>Funds</u>	<u>Total Estimated Resources</u>	<u>Total Appropriations</u>	<u>Variance</u>
<u>Special Revenue Funds:</u>			
Police Levy	\$199,559	\$201,125	(\$1,566)
Street Levy	193,225	298,000	(104,775)
Park Levy	125,985	245,900	(119,915)
Permissive Sales Tax	75,564	335,800	(260,236)
Law Enforcement	918	1,406	(488)
Special Inspection	6,912	8,850	(1,938)
Depot Senior Center	60,311	86,800	(26,489)
Festival	15,150	15,550	(400)
<u>Enterprise Fund:</u>			
Water	1,800,806	1,884,659	(83,853)

In addition, the Village did not obtain certificates from the County Auditor indicating appropriations from each fund do not exceed the total Amended Official Estimate of Resources. Village Council should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Village should obtain and retain the required certificate from the County Auditor when amending appropriations and estimated resources.

Officials' Response: 1) Non Cash Funds received and related expenditures as explained in Findings Number 2008-002 and 2008-003 – have been corrected in 2009. 2) Proper classification of receipts i.e.: breakdown of Permissive Sales Tax revenue has been reviewed and correct allocation for 2009 has been implemented.

FINDING NUMBER 2008-005

Noncompliance/Material Weakness

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provide guidelines pertaining to allowable interfund transfers. Ohio Rev. Code Section 5705.14 provides interfund transfers shall only be made by resolution of the taxing authority. See also 1989 Op. Att'y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds.) In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority.

In 2008 and 2007, \$49,000 and \$45,859, respectively, of transfers did not comply with Ohio Rev. Code Section 5705.14 and did not meet the requirements of Ohio Rev. Code Sections 5705.15 and 5705.16. An adjustment was made to the financial statements to eliminate these transfers.

In addition, actual transfers posted to the Village's ledgers exceeded the Council approved amount in the appropriation resolution by \$20,000 and \$12,500 in 2008 and 2007, respectively.

Whenever possible and allowable, the Village should directly receipt monies into the appropriate funds rather than transferring these monies. In addition, Council should ensure appropriations are made for all transfers and the amount appropriated is adequate to cover the actual transfers made to the Village's ledgers.

Officials' Response: Agree with the finding – interfund transfers reclassified at December 31, 2008. We have reviewed the Ohio Rev. Code Section dealing with Interfund Transfers to correctly handle these transfers. Council will approve all appropriations transfers.

FINDING NUMBER 2008-006

Noncompliance/Material Weakness

Ohio Rev. Code Section 5705.10(H) indicates money paid into any fund shall be used only for the purposes for which such fund is established.

In 2008 and 2007, \$60,000 and \$311,500, respectively, of advances were made which were not consistent with the purposes for which the respective funds were established. An adjustment was made to the financial statements to eliminate these advances.

In addition, at December 31, 2008 and 2007, the Village had two funds and one fund, respectively, with negative fund balances ranging from \$6,611 to \$31,550, which were a result of audit adjustments posted to the Villages records. Negative cash fund balances are an indication receipts from other sources were used to pay obligations of these funds.

Fund activity should be monitored to prevent future disbursements in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Officials' Response: The Ohio Rev. Code Section dealing with "Advances" will be reviewed during 2009. The Village fund balances will be monitored to prevent negative balances.

FINDING NUMBER 2008-007

Material Weakness

Cash Reconciliation

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance. Bank reconciliation means accounting for the differences between the bank statement's balances and the cash and investment balances according to the entity's records at a specific point in time.

The December 31, 2008 and 2007 bank reconciliations showed a book over bank variance of \$887,082 and \$729,338, respectively. These amounts consisted of various errors to receipts and disbursements, including the following:

- In 2008 and 2007, \$671,473 and (\$799,195), respectively, of Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA) receipts and \$829,342 and (\$70,725), respectively, of disbursements, were overstated or (understated). These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$13,424 and \$9,098, respectively, of receipts and \$11,857 and \$7,782, respectively, of disbursements posted to the Village's books were overstated compared to the receipts and disbursements of the bank. These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$1,692 and \$448, respectively, were posted to the Village's books to enable the Village's book balance to agree with the bank balance. These amounts were adjusted to the financial statements.

Other items noted with respect to the Village's bank reconciliations included:

- At December 31, 2008 and 2007, the payroll checking account reconciliation had a book balance of \$1,652 and \$1,609, respectively. This account should have a \$0 book balance as it should be a clearing account.
- The payroll checking account reconciliation and Mayor's Court reconciliations did not have evidence they had been reviewed by a supervisor.
- The water and sewer bank account did not have a monthly reconciliation completed.

Without complete and accurate monthly bank reconciliations, the Village's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The Village should perform complete monthly bank reconciliations in a timely manner. Also, the Finance Director or a supervisor should initial the bank reconciliations to indicate their review and approval and copies of the monthly bank reconciliations and listing of outstanding checks and other reconciling items should be provided to the Council or Finance Committee each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented. Finally, the Village should investigate the balance in the payroll checking account and dispose of the balance in the appropriate fashion, either by paying any unpaid obligations or moving the money back to the general checking account.

Officials' Response: Timely bank reconciliations for all bank accounts have been completed for the current year (January through June 2009). The problem in posting "Non Cash" receipts and disbursement as noted in Finding Number 2008-002, 2008-003, 2008-004, and related monthly attempts during 2008 to properly post these amounts were noted, corrected by the Audit at December 31, 2008.

FINDING NUMBER 2008-008

Material Weakness

Transaction Posting

Our receipt and disbursement testing revealed the Village recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2008 and 2007, \$49,592 and \$34,399, respectively, of public utility and CAT tax receipts were incorrectly posted to the General, Streets Maintenance, Park Levy and Police Levy Fund's Tax Receipts rather than Intergovernmental Receipts. In addition, in 2007, \$47,095 of tax receipts was incorrectly posted to the General, Streets Maintenance, Park Levy and Police Levy Fund's Intergovernmental Receipts rather than Tax Receipts. These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$20,148 and \$27,532, respectively, of homestead and rollback receipts were incorrectly allocated among the General, Streets Maintenance, Park Levy and Police Levy Funds. In addition, in 2007, \$10,272 of personal property tax receipts was incorrectly allocated among the General, Streets Maintenance, Park Levy and Police Levy Funds. These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$1,400 and \$2,600, respectively, of auto distribution receipts was incorrectly allocated between the Streets Maintenance and State Highway Funds. In addition, in 2008 and 2007, \$488 and \$3,209, respectively, of auto distribution receipts, respectively, were incorrectly posted to the General Fund instead of the Streets Maintenance and State Highway Funds. Finally, in 2007, \$808 of gas tax receipts was incorrectly posted to the General Fund's Interest Receipts rather than the State Highway Fund's Intergovernmental Receipts. These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$42,479 and \$753,139, respectively, of Loan Proceeds and \$94,284 and \$46,056, respectively, of Intergovernmental Receipts were overstated due to various errors, such as misspostings between Loan Proceeds, Intergovernmental Receipts and Miscellaneous Receipts, amounts posted which did not agree to OPWC's records, and amounts posted in 2008 which should have been posted in 2007. These amounts were adjusted to the financial statements.
- In 2008, \$11,060 of FEMA grant money and \$1,536 of DARE grant money was incorrectly posted to the General Fund's Miscellaneous Receipts and DARE Fund's Donations Receipts, respectively, rather than Intergovernmental Receipts. These amounts were adjusted to the financial statements.
- In 2008, \$2,000 of Transfers In was incorrectly posted as Advances In for the Depot Senior Center Fund. This amount was adjusted to the financial statements.
- In 2008, there was a difference of \$130,869 between the Statement of Cash Position year-to-date disbursements and the Expenditure Ledger total disbursements. This amount was adjusted to the financial statements.
- In 2007, \$57,110 was incorrectly posted as Sale of Notes Receipts rather than posting it as a negative disbursement to eliminate the duplicate payment. This amount was adjusted to the financial statements.

FINDING NUMBER 2008-008 (Continued)

Material Weakness (Continued)

- In 2007, a net amount of \$1,661 of adjustments were made to agree the Village's beginning book balances to the December 31, 2006 audited ending balances.
- In 2008 and 2007, \$20,657 and \$14,465, respectively, of principal and interest disbursements were incorrectly posted to various disbursement line items rather than debt service principal and interest disbursement line items. These amounts were adjusted to the financial statements.

The Village should exercise due care when posting transactions to help ensure receipts and disbursements are posted to the correct fund and account. Additionally, the Village Council or the Finance Committee should review cash reconciliations and monthly receipt and disbursement activity reports to help ensure transactions are properly accounted for and classified. This will help more accurately reflect the Village's financial activity and will aid in more accurate financial reporting.

Officials' Response: Based upon the Mayors' directive; due to care in posting All transactions must be implemented as of September 15, 2009. This was based upon the Auditors finding, as noted in Finding Number 2008-008.

FINDING NUMBER 2008-009

Material Weakness

Mayor's Court Procedures

The Village does not record the total activity for the Mayor's Court on the Village's books. The Mayor's Court records are kept separate from the Village's books, and each month a check is written to the Village for its portion of the fines and fees. Also, the fines and costs were not always allocated to the various accounts in the General Fund as required. This practice does not report the Village's entire financial statement activity, which could result in the Mayor's Court activity being overlooked and not being reviewed or monitored by Council.

The fines and costs should be originally recorded in an Agency Fund, and then only the portion of fines and costs due to the Village should be recorded as a receipt in the General Fund to clearly account for the portion of court receipts that legally belong to the Village. This amount paid into the General Fund should be allocated among the various Mayor's Court receipt accounts as required to ensure the money is used only for the intended purpose. The fines and costs due to the state should also be paid from this Agency Fund. This will allow for the entire activity of the Village to be included on the Village's books, and for Council to review the activity, and will help ensure more accurate financial statements.

Adjustments were made to the financial statements to reflect the Mayor's Court activity.

Officials' Response: Village Mayor's Court activity will be handled monthly. All receipts collected and the corresponding expenditures recorded, as required.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-LEX-001	ORC 5705.39 – The Village had appropriations exceeding estimated resources in 2006 and 2005.	No	Repeated as Finding Number 2008-004.
2006-LEX-002	ORC 5705.41(B) – The Village had disbursements exceeding appropriations in 2006 and 2005.	No	Repeated as a Management Letter comment.
2006-LEX-003	ORC 117.38 – The Village did not file their 2006 cash basis annual report within 60 days. In addition, both 2005 and 2006 annual reports contained various errors.	No	Repeated similar comment as Finding Number 2008-008.
2006-LEX-004	ORC 5705.10 – The Village had a negative fund balance at December 31, 2006 and 2005.	No	Repeated as Finding Number 2008-006.
2006-LEX-005	OAC 117-2-02(A) – The Village did not record all transactions properly.	No	Repeated similar comment as Finding Number 2008-008.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LEXINGTON

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 29, 2009