



Dave Yost • Auditor of State



VILLAGE OF LEXINGTON  
RICHLAND COUNTY

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# Dave Yost • 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.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

April 22, 2011

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# Dave Yost • 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, 2010 and 2009. 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, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 April 22, 2011, 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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

April 22, 2011



**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, 2010**

|   | <u>Governmental Fund Types</u> |                            |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|-----------------------------|---|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |   |
| <b>Cash Receipts:</b>   |                                |                            |                             |   |
| Property and Local Taxes  | \$250,806                      | \$379,056                  |                             | \$629,862                               |
| Municipal Income Tax  | 1,332,606                      |                            |                             | 1,332,606                               |
| Intergovernmental   | 322,005                        | 406,860                    |                             | 728,865                                 |
| Charges for Services  | 356                            | 11,593                     |                             | 11,949                                  |
| Fines, Licenses and Permits   | 47,006                         | 730                        |                             | 47,736                                  |
| Earnings on Investments   | 8,119                          | 748                        |                             | 8,867                                   |
| Donations   | 800                            | 60,232                     |                             | 61,032                                  |
| Miscellaneous   | 30,397                         | 93,478                     |                             | 123,875                                 |
| <b>Total Cash Receipts</b>  | <u>1,992,095</u>               | <u>952,697</u>             |                             | <u>2,944,792</u>                        |
| <b>Cash Disbursements:</b>  |                                |                            |                             |   |
| Current:  |                                |                            |                             |   |
| Security of Persons and Property  | 896,139                        | 206,942                    |                             | 1,103,081                               |
| Public Health Services  | 7,090                          | 281,626                    |                             | 288,716                                 |
| Leisure Time Activities   | 168,026                        | 102,577                    |                             | 270,603                                 |
| Community Environment   | 21,411                         | 31,009                     |                             | 52,420                                  |
| Transportation  |                                | 511,461                    |                             | 511,461                                 |
| General Government  | 515,976                        | 6,556                      |                             | 522,532                                 |
| Debt Service:   |                                |                            |                             |   |
| Redemption of Principal   | 3,794                          | 41,126                     |                             | 44,920                                  |
| Interest and Fiscal Charges   |                                | 564                        |                             | 564                                     |
| <b>Total Cash Disbursements</b>   | <u>1,612,436</u>               | <u>1,181,861</u>           |                             | <u>2,794,297</u>                        |
| <b>Total Cash Receipts Over/(Under) Cash Disbursements</b>  | <u>379,659</u>                 | <u>(229,164)</u>           |                             | <u>150,495</u>                          |
| <b>Other Financing Receipts / (Disbursements):</b>  |                                |                            |                             |   |
| Sale of Fixed Assets  | 456                            | 511                        |                             | 967                                     |
| Transfers-In  |                                | 325,000                    |                             | 325,000                                 |
| Transfers-Out   | (364,738)                      |                            |                             | (364,738)                               |
| <b>Total Other Financing Receipts / (Disbursements)</b>   | <u>(364,282)</u>               | <u>325,511</u>             |                             | <u>(38,771)</u>                         |
| <b>Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements</b> | <u>15,377</u>                  | <u>96,347</u>              |                             | <u>111,724</u>                          |
| <b>Fund Cash Balances, January 1</b>  | <u>394,802</u>                 | <u>373,643</u>             | <u>\$276</u>                | <u>768,721</u>                          |
| <b>Fund Cash Balances, December 31</b>  | <u><u>\$410,179</u></u>        | <u><u>\$469,990</u></u>    | <u><u>\$276</u></u>         | <u><u>\$880,445</u></u>                 |
| <b>Reserve for Encumbrances, December 31</b>  | <u><u>\$21,175</u></u>         | <u><u>\$2,204</u></u>      |                             | <u><u>\$23,379</u></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, 2010**

|   | <u>Proprietary<br/>Fund Type</u> | <u>Fiduciary<br/>Fund Type</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|---|----------------------------------|--------------------------------|---|
|   | <u>Enterprise</u>                | <u>Agency</u>                  |   |
| <b>Operating Cash Receipts:</b>   |                                  |                                |   |
| Charges for Services  | \$1,031,358                      |                                | \$1,031,358                             |
| Miscellaneous   |                                  | \$500                          | 500                                     |
| Total Operating Cash Receipts   | <u>1,031,358</u>                 | <u>500</u>                     | <u>1,031,858</u>                        |
| <b>Operating Cash Disbursements:</b>  |                                  |                                |   |
| Personal Services   | 324,266                          |                                | 324,266                                 |
| Travel Transportation   | 8,447                            |                                | 8,447                                   |
| Contractual Services  | 172,599                          |                                | 172,599                                 |
| Supplies and Materials  | 63,907                           |                                | 63,907                                  |
| Refunds   | 356                              | 100                            | 456                                     |
| Other   | 5,048                            |                                | 5,048                                   |
| Total Operating Cash Disbursements  | <u>574,623</u>                   | <u>100</u>                     | <u>574,723</u>                          |
| Operating Income  | <u>456,735</u>                   | <u>400</u>                     | <u>457,135</u>                          |
| <b>Non-Operating Cash Receipts:</b>   |                                  |                                |   |
| Fines and Forfeitures   |                                  | 71,759                         | 71,759                                  |
| Intergovernmental   | 36,508                           |                                | 36,508                                  |
| Special Assessments   | 9,274                            |                                | 9,274                                   |
| Loan Proceeds   | 271,832                          |                                | 271,832                                 |
| Sale of Fixed Assets  | 3,000                            |                                | 3,000                                   |
| Total Non-Operating Cash Receipts   | <u>320,614</u>                   | <u>71,759</u>                  | <u>392,373</u>                          |
| <b>Non-Operating Cash Disbursements:</b>                                    |                                  |                                |   |
| Capital Outlay  | 358,394                          |                                | 358,394                                 |
| Redemption of Principal   | 185,885                          |                                | 185,885                                 |
| Interest and Other Fiscal Charges   | 232,357                          |                                | 232,357                                 |
| Distribution of Fines   |                                  | 72,645                         | 72,645                                  |
| Total Non-Operating Cash Disbursements                                      | <u>776,636</u>                   | <u>72,645</u>                  | <u>849,281</u>                          |
| Excess of Receipts Over/(Under) Disbursements<br>Before Interfund Transfers | 713                              | (486)                          | 227                                     |
| Transfers-In  | <u>39,738</u>                    |                                | <u>39,738</u>                           |
| Net Receipts Over/(Under) Disbursements                                     | 40,451                           | (486)                          | 39,965                                  |
| Fund Cash Balances, January 1   | <u>749,704</u>                   | <u>5,520</u>                   | <u>755,224</u>                          |
| <b>Fund Cash Balances, December 31</b>                                      | <b><u>\$790,155</u></b>          | <b><u>\$5,034</u></b>          | <b><u>\$795,189</u></b>                 |
| Reserve for Encumbrances, December 31                                       | <u>\$473</u>                     |                                | <u>\$473</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 GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

|  | <u>Governmental Fund Types</u> |                            |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|--------------------------------|----------------------------|-----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |   |
| <b>Cash Receipts:</b>  |                                |                            |                             |   |
| Property and Local Taxes   | \$250,143                      | \$376,689                  |                             | \$626,832                               |
| Municipal Income Tax   | 1,313,911                      |                            |                             | 1,313,911                               |
| Intergovernmental  | 155,557                        | 508,442                    |                             | 663,999                                 |
| Special Assessments  | 85                             |                            |                             | 85                                      |
| Charges for Services   | 366                            | 8,456                      |                             | 8,822                                   |
| Fines, Licenses and Permits  | 56,754                         | 926                        |                             | 57,680                                  |
| Earnings on Investments  | 8,563                          | 837                        |                             | 9,400                                   |
| Donations  | 1,015                          | 36,865                     |                             | 37,880                                  |
| Miscellaneous  | 10,550                         | 103,823                    |                             | 114,373                                 |
|  | <u>1,796,944</u>               | <u>1,036,038</u>           |                             | <u>2,832,982</u>                        |
| <b>Cash Disbursements:</b>   |                                |                            |                             |   |
| Current:   |                                |                            |                             |   |
| Security of Persons and Property   | 950,835                        | 168,560                    |                             | 1,119,395                               |
| Public Health Services   | 25,778                         | 140,645                    |                             | 166,423                                 |
| Leisure Time Activities  | 181,852                        | 59,498                     |                             | 241,350                                 |
| Community Environment  | 28,963                         | 38,118                     |                             | 67,081                                  |
| Transportation   |                                | 638,771                    |                             | 638,771                                 |
| General Government   | 577,684                        | 6,545                      |                             | 584,229                                 |
| Debt Service:  |                                |                            |                             |   |
| Redemption of Principal  | 5,692                          | 40,438                     |                             | 46,130                                  |
| Interest and Fiscal Charges  |                                | 1,134                      |                             | 1,134                                   |
|  | <u>1,770,804</u>               | <u>1,093,709</u>           |                             | <u>2,864,513</u>                        |
| Total Cash Receipts Over/(Under) Cash Disbursements  | <u>26,140</u>                  | <u>(57,671)</u>            |                             | <u>(31,531)</u>                         |
| <b>Other Financing Receipts / (Disbursements):</b>   |                                |                            |                             |   |
| Sale of Fixed Assets   | 7,220                          | 96                         |                             | 7,316                                   |
| Transfers-In   |                                | 340,000                    |                             | 340,000                                 |
| Transfers-Out  | (340,000)                      |                            |                             | (340,000)                               |
| Advances-In  | 50,000                         |                            |                             | 50,000                                  |
| Advances-Out   |                                | (50,000)                   |                             | (50,000)                                |
|  | <u>(282,780)</u>               | <u>290,096</u>             |                             | <u>7,316</u>                            |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | (256,640)                      | 232,425                    |                             | (24,215)                                |
| Fund Cash Balances, January 1  | <u>651,442</u>                 | <u>141,218</u>             | <u>\$276</u>                | <u>792,936</u>                          |
| <b>Fund Cash Balances, December 31</b>   | <b><u>\$394,802</u></b>        | <b><u>\$373,643</u></b>    | <b><u>\$276</u></b>         | <b><u>\$768,721</u></b>                 |
| Reserve for Encumbrances, December 31  | <u>\$980</u>                   | <u>\$1,401</u>             |                             | <u>\$2,381</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, 2009**

|  | <u>Proprietary<br/>Fund Types</u> | <u>Fiduciary<br/>Fund Types</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|-----------------------------------|---------------------------------|---|
|  | <u>Enterprise</u>                 | <u>Agency</u>                   |   |
| <b>Operating Cash Receipts:</b>          |                                   |                                 |   |
| Charges for Services                     | \$982,127                         |                                 | \$982,127                               |
| <b>Operating Cash Disbursements:</b>     |                                   |                                 |   |
| Personal Services                        | 318,527                           |                                 | 318,527                                 |
| Travel Transportation                    | 9,828                             |                                 | 9,828                                   |
| Contractual Services                     | 150,857                           |                                 | 150,857                                 |
| Supplies and Materials                   | 63,061                            |                                 | 63,061                                  |
| Refunds                                  | 370                               |                                 | 370                                     |
| Other                                    | 23,978                            |                                 | 23,978                                  |
| Total Operating Cash Disbursements       | <u>566,621</u>                    |                                 | <u>566,621</u>                          |
| Operating Income                         | <u>415,506</u>                    |                                 | <u>415,506</u>                          |
| <b>Non-Operating Cash Receipts:</b>      |                                   |                                 |   |
| Fines and Forfeitures                    |                                   | \$71,879                        | 71,879                                  |
| Intergovernmental                        | 381,541                           |                                 | 381,541                                 |
| Special Assessments                      | 18,525                            |                                 | 18,525                                  |
| Loan Proceeds                            | 3,426,325                         |                                 | 3,426,325                               |
| Total Non-Operating Cash Receipts        | <u>3,826,391</u>                  | <u>71,879</u>                   | <u>3,898,270</u>                        |
| <b>Non-Operating Cash Disbursements:</b> |                                   |                                 |   |
| Capital Outlay                           | 3,729,150                         |                                 | 3,729,150                               |
| Redemption of Principal                  | 75,065                            |                                 | 75,065                                  |
| Interest and Other Fiscal Charges        | 151,113                           |                                 | 151,113                                 |
| Distribution of Fines                    |                                   | 72,322                          | 72,322                                  |
| Total Non-Operating Cash Disbursements   | <u>3,955,328</u>                  | <u>72,322</u>                   | <u>4,027,650</u>                        |
| Net Receipts Over/(Under) Disbursements  | 286,569                           | (443)                           | 286,126                                 |
| Fund Cash Balances, January 1            | <u>463,135</u>                    | <u>5,963</u>                    | <u>469,098</u>                          |
| <b>Fund Cash Balances, December 31</b>   | <b><u>\$749,704</u></b>           | <b><u>\$5,520</u></b>           | <b><u>\$755,224</u></b>                 |
| Reserve for Encumbrances, December 31    | <u>\$2,550</u>                    |                                 | <u>\$2,550</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, 2010 AND 2009**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio and its Citizen-approved Village Charter establish the rights and privileges of the Village of Lexington, Richland County, (the Village) as a body corporate and politic. 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, 2010 AND 2009  
(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.

Depot Senior Center Fund - This fund receives donations, miscellaneous receipts and grants from the Department of Aging for the operation of the Senior Center.

**3. Debt Service Fund**

This fund accounts for resources the Village accumulates to pay bond and note debt. There was no activity in this fund during 2010 and 2009.

**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). There was no activity in this fund during 2010 and 2009.

**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.

**6. Fiduciary Funds**

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 funds account for its Mayor's Court, which receives money from fines and forfeitures, and the Deposit Withholding Fund, which collects and distributes park usage deposits.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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 2010 and 2009 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.

**2. 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:

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**2. Equity in Pooled Deposits and Investments (Continued)**

|                                | 2010        | 2009        |
|--------------------------------|-------------|-------------|
| Demand deposits                | \$925,454   | \$780,935   |
| Certificates of deposit        | 354,614     | 347,872     |
| Total deposits                 | 1,280,068   | 1,128,807   |
| STAR Ohio                      | 395,566     | 395,138     |
| Total deposits and investments | \$1,675,634 | \$1,523,945 |

**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.

**3. Budgetary Activity**

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

| Fund Type       | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General         | \$1,978,350          | \$1,992,551        | \$14,201 |
| Special Revenue | 1,335,700            | 1,278,208          | (57,492) |
| Enterprise      | 1,309,220            | 1,391,710          | 82,490   |
| Total           | \$4,623,270          | \$4,662,469        | \$39,199 |

2010 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type       | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
|-----------------|----------------------------|---------------------------|-----------|
| General         | \$2,158,072                | \$1,998,349               | \$159,723 |
| Special Revenue | 1,253,233                  | 1,184,065                 | 69,168    |
| Enterprise      | 1,414,193                  | 1,351,732                 | 62,461    |
| Total           | \$4,825,498                | \$4,534,146               | \$291,352 |

2009 Budgeted vs. Actual Receipts

| Fund Type       | Budgeted<br>Receipts | Actual<br>Receipts | Variance    |
|-----------------|----------------------|--------------------|-------------|
| General         | \$2,085,362          | \$1,804,164        | (\$281,198) |
| Special Revenue | 1,237,316            | 1,376,134          | 138,818     |
| Debt Service    | 9,700                | 0                  | (9,700)     |
| Enterprise      | 1,630,400            | 4,808,518          | 3,178,118   |
| Total           | \$4,962,778          | \$7,988,816        | \$3,026,038 |



**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. Budgetary Activity (Continued)**

| 2009 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$2,616,993                | \$2,111,784               | \$505,209 |
| Special Revenue                                       | 1,266,156                  | 1,095,110                 | 171,046   |
| Enterprise  | 4,745,531                  | 4,524,499                 | 221,032   |
| Total   | \$8,628,680                | \$7,731,393               | \$897,287 |

**Noncompliance:**

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2010 and 2009.

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

Contrary to Ohio Rev. Code Section 5705.39, total appropriations exceeded total estimated resources in eight funds at December 31, 2010 and in nine funds at December 31, 2009.

Contrary to Ohio Rev. Code Section 5705.10(H), at December 31, 2010 and 2009, there were one fund and three funds, respectively, with negative fund balances.

**4. 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.

**5. 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.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. Local Income Tax (Continued)**

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.

**6. 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:           | Truck    | Wheel Loader |
|------------------------------------|----------|--------------|
| 2011                               | \$13,000 | 18,463       |
| 2012                               | 13,000   | 18,463       |
| Total minimum payments required    | 26,000   | 36,926       |
| Less: amount representing interest | (1,503)  | 0            |
| Future minimum lease payments      | \$24,497 | \$36,926     |

**7. Debt**

Debt outstanding at December 31, 2010 was as follows:

|   | Principal   | Interest Rate |
|---|-------------|---------------|
| OPWC (Water Main Replacement)               | \$45,108    | 0%            |
| OPWC (Water Treatment Plant Upgrade)        | 624,674     | 0%            |
| OPWC (Water Storage and Bridge Replacement) | 36,412      | 0%            |
| OPWC (Wastewater Treatment Improvements)    | 97,500      | 0%            |
| Various Purpose Bonds, Series 2004          | 250,000     | 2.45 - 4.75%  |
| Ohio Water Development Authority            | 4,398,698   | 4.65%         |
| Total                                       | \$5,452,392 |               |

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 loan is broken out between two project numbers. The first project number will be repaid in semi-annual installments of \$6,589, with no interest through January 2030, while the second project number will be repaid in semi-annual installments of \$6,453, with no interest through January 2010. The Loan is collateralized by the Village's taxing authority.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Debt (Continued)**

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.

The Ohio Public Works Commission (Wastewater Treatment Improvements) Loan was entered into to finance improvements to the wastewater treatment plant. This loan will be repaid in semi-annual installments of \$2,500, with no interest through July 2030. The Loan is collateralized by the Village's taxing authority.

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. The project was not completed as of December 31, 2010, however, the OWDA had the Village start making payments. The total amount borrowed was \$4,531,860, with the final amount of \$57,732 coming in January 2011. This loan will be repaid in semi-annual installments of \$140,830, with an interest rate of 4.65% through January 2040. The Loan is collateralized by the Village's taxing authority.

Amortization of the above debt, including interest, is scheduled as follows:

| Year ending<br>December 31: | OPWC (Water<br>Main<br>Replacement) | OPWC<br>(Water<br>Treatment<br>Plant<br>Upgrade) | OPWC (Water<br>Storage and<br>Bridge<br>Replacement) | OPWC<br>(Wastewater<br>Treatment<br>Plant) | Various<br>Purpose<br>Bonds,<br>Series<br>2004 | OWDA               |
|-----------------------------|-------------------------------------|--|--|--|--|--------------------|
| 2011                        | \$2,653                             | \$26,085   | \$14,566   | \$5,000                                    | \$71,360                                       | \$267,222          |
| 2012                        | 2,653                               | 26,085   | 14,566   | 5,000                                      | 68,560   | 281,660            |
| 2013                        | 2,653                               | 26,085   | 7,280  | 5,000                                      | 70,360   | 281,660            |
| 2014                        | 2,653                               | 26,085   |  | 5,000                                      | 69,087   | 281,660            |
| 2015                        | 2,653                               | 26,085   |  | 5,000                                      |  | 281,660            |
| 2016-2020                   | 13,265                              | 130,425  |  | 25,000                                     |  | 1,408,300          |
| 2021-2025                   | 13,265                              | 130,425  |  | 25,000                                     |  | 1,408,300          |
| 2026-2030                   | 5,313                               | 117,246  |  | 22,500                                     |  | 1,408,300          |
| 2031-2035                   |                                     | 64,530   |  |  |  | 1,408,300          |
| 2036-2039                   |                                     | 51,623   |  |  |  | 1,126,640          |
| <b>Total</b>                | <b>\$45,108</b>                     | <b>\$624,674</b>                                 | <b>\$36,412</b>                                      | <b>\$97,500</b>                            | <b>\$279,367</b>                               | <b>\$8,153,702</b> |

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**8. 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 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

**9. Risk Management**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

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

**10. 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.



# Dave Yost • 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, 2010 and 2009, and have issued our report thereon dated April 22, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001, 2010-006 and 2010-007 described in the accompanying schedule of findings to be material weaknesses.

### **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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-005.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 22, 2011.

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, Village Council, and others within the Village. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

April 22, 2011

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**Finding Number 2010-001**

**NONCOMPLIANCE AND 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 2010 and 2009, Ohio Water Development Authority (OWDA) expended \$226,464 and \$3,365,625, respectively, for wastewater treatment plant improvements on behalf of the Village. Under the terms of this agreement, OWDA made project payments directly to the vendor/contractor(s) on the Village's behalf. Of the \$226,464 and \$3,365,625 of OWDA on-behalf moneys in 2010 and 2009, the Village did not recognize \$218,359 and \$129,295, respectively as receipts and disbursements in their accounting records, thus understating their receipts and disbursements. An adjustment was made to the financial statements to recognize these receipts and disbursements.

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 2000-008 for additional guidance.

**Officials' Response:** Appropriate information will be obtained from funding agencies website for all future projects.

**Finding Number 2010-002**

**NONCOMPLIANCE**

**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.

**Finding Number 2010-002 (Continued)**

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 tested expenditures 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.

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 Village is currently reviewing Blanket Certificates and Super Blanket Certificates for future use.



**Finding Number 2010-003**

**NONCOMPLIANCE**

**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, 2010, total appropriations exceeded total estimated resources as follows:

| Funds                        | Total<br>Estimated<br>Resources | Total<br>Appropriations | Variance    |
|------------------------------|---------------------------------|-------------------------|-------------|
| <u>Special Revenue Fund:</u> |                                 |                         |             |
| Depot Senior Center          | \$180,200                       | \$290,974               | (\$110,774) |
| <u>Enterprise Funds:</u>     |                                 |                         |             |
| Sewer Improvement Bond       | 10,962                          | 15,000                  | (4,038)     |
| Water Improvement Bond       | 11,230                          | 71,750                  | (60,520)    |
| State Issue II               | 53,685                          | 131,000                 | (77,315)    |

At December 31, 2009, total appropriations exceeded total estimated resources as follows:

| Funds                         | Total<br>Estimated<br>Resources | Total<br>Appropriations | Variance    |
|-------------------------------|---------------------------------|-------------------------|-------------|
| <u>Special Revenue Funds:</u> |                                 |                         |             |
| Street Maintenance            | \$527,780                       | \$536,346               | (\$8,566)   |
| Park Levy                     | 83,869                          | 128,380                 | (44,511)    |
| Permissive Sales Tax          | 69,060                          | 188,084                 | (119,024)   |
| Depot Senior Center           | 131,599                         | 147,122                 | (15,523)    |
| Festival                      | 32,879                          | 38,445                  | (5,566)     |
| <u>Enterprise Funds:</u>      |                                 |                         |             |
| Sewer Improvement Bond        | 2,024                           | 15,000                  | (12,976)    |
| State Issue II                | 562,522                         | 3,680,000               | (3,117,478) |

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, as well as follow the guidance for appropriating on-behalf of grants specified in AOS Bulletin 2000-008. The Village should also obtain and retain the required certificate from the County Auditor when amending appropriations and estimated resources.

**Officials' Response:** The Village will be sure to make necessary revenue adjustment in addition to the appropriations to assure compliance.

**Finding Number 2010-004**

**NONCOMPLIANCE**

**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.

At December 31, 2010 and 2009, the Village had one fund and three funds, respectively, with negative fund balances ranging from \$8,128 to \$48,770, 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 Village should consider either transferring or advancing to the fund in accordance with the Ohio Revised Code.

**Officials' Response:** This has been discussed and corrected.

**Finding Number 2010-005**

**Finding for Recovery - Repaid Under Audit**

**NONCOMPLIANCE**

On November 20, 2009, Andrew Smallstey was paid \$126 for 5 hours of overtime at a pay rate of \$25.20 per hour, which is time and one half of his regular rate. However, his time card indicated he should have only been paid for .5 hours of overtime, which should have been \$12.60. This resulted in an overpayment of 4.5 hours of overtime which is \$113.40.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Andrew Smallstey in the amount of \$113 and in favor of the Village's General Fund.

The Village withheld \$57 and \$56 from Mr. Smallstey's April 8, 2011 and April 22, 2011 wages respectively, to account for the prior overpayment.

The Village should ensure pay rates and overtime hours are properly inputted into the accounting system and employee's wages are properly calculated.

**Officials' Response:** This has been corrected and documentation has been provided to the Auditor of the State's office.

### Finding Number 2010-006

#### Transaction Posting

#### MATERIAL WEAKNESS

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

- In 2010 and 2009, \$63,165 and \$62,513, respectively, of CAT tax receipts were incorrectly posted to the General, Park Levy and Police Levy Fund's Tax Receipts rather than Intergovernmental Receipts. In addition, \$15,747 and \$15,498, respectively, of those receipts were incorrectly allocated among the General, Street Levy, Park Levy and Police Levy Funds. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2010 and 2009, \$32,094 and \$12,446, respectively, of homestead and rollback and public utility reimbursement receipts were incorrectly allocated among the General, Street Levy, Park Levy and Police Levy Funds. In addition, in 2009, \$3,223 of income tax receipts were incorrectly posted as homestead and rollback. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2009, \$18,525 of special assessment receipts were incorrectly posted to the Orchard Park Debt Service Fund and Sewer Improvement Fund rather than the Sewer Fund. This amount was adjusted to the financial statements and Village's accounting records.
- In 2009, \$2,503 of auto distribution receipts were incorrectly posted to the General Fund instead of the Streets Maintenance and State Highway Funds. In addition, in 2009, \$398 of excess IRP receipts were incorrectly posted as Police Levy Tax Receipts rather than Streets Maintenance and State Highway Fund Intergovernmental Receipts. Finally, in 2009, \$2,120 of police grants was incorrectly posted to the General Fund's Miscellaneous Receipts rather than Intergovernmental Receipts. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2010 and 2009, \$54,632 and \$50,886, respectively, of OPWC Loan Proceeds and \$33,413 and \$381,541, respectively of OPWC Intergovernmental Receipts were posted to the State Issue II Fund rather than the Sewer and Water Improvement Funds. Although all of these funds are re-classed as Enterprise Funds for reporting purposes, it is important to maintain the integrity of the individual funds and continue using the same funds for the same projects from year to year. In addition, in 2010, \$3,095 of OPWC Intergovernmental Receipts were incorrectly posted as Miscellaneous Receipts, and in 2009, \$26,616 of OPWC Loan Proceeds were incorrectly posted as Intergovernmental Receipts. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2010 and 2009, \$5,518 and \$3,236,330, respectively, of OWDA Loan Proceeds were posted to the State Issue II Fund rather than the Sewer Improvement Capital Projects Fund. Although these funds are reclassified as Enterprise Funds for reporting purposes, it is important to maintain the integrity of the individual funds and continue using the same funds for the same projects from year to year. In addition, in 2010, \$7,003 and \$64,041, respectively, of OWDA receipts and disbursements were posted to the Village's records twice. Finally, in 2010, \$2,587 of OWDA receipts were posted as Intergovernmental Receipts rather than Loan Proceeds. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2010 and 2009, \$226,982 and \$12,952, 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.
- In 2010 and 2009, \$2,700 and \$2,790, respectively, of mulch sale and intergovernmental receipts were posted to the Depot Senior Center Miscellaneous Receipts instead of Street Fund Miscellaneous receipts and Depot Senior Center Intergovernmental Receipts, respectively. These amounts were adjusted to the financial statements and Village's accounting records.

**Finding Number 2010-006 (Continued)**

**Transaction Posting (Continued)**

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:** All necessary budget adjustments have been made. The Village will continue to assure deposits are being made into proper accounts.

**Finding Number 2010-007**

**Cash Reconciliations**

**MATERIAL WEAKNESS**

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

The December 31, 2010 and 2009 bank reconciliations showed a book over bank variance of \$967 and \$6,118, respectively. These amounts consisted of various errors to receipts and disbursements, including the following:

- In 2010, \$2,082 of receipts from closing two bank accounts were posted to the books as receipts. These amounts should have already been on the books, and therefore, this is double counting the receipts. This should have only been a transfer between bank accounts. This amount was adjusted to the financial statements and Village's accounting records.
- In 2010, \$2,836 was posted to the Village's books to enable the Village's book balance to agree with the bank balance. This amount was adjusted to the financial statements and Village's accounting records.

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

- Although individual account reconciliations were performed, there was no aggregate reconciliation completed for the Village's entire cash and investment pool.
- The December 31, 2009 outstanding check list was unable to be located.
- There were reconciling items carried on the reconciliations for numerous months before being adjusted.
- At December 31, 2010 and 2009, the payroll checking account reconciliation had a book balance of \$3,226 and \$1,615, respectively. This account should have a \$0 book balance as it should be a clearing account.
- The general checking account reconciliation, 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.

**Finding Number 2010-007 (Continued)**

**Cash Reconciliations (Continued)**

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:** The Village will assure that all cash reconciliations are completed prior to the end of the following month.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|---|------------------|--|
| 2008-001       | ORC 5705.41(D) – The Village had 52 percent of expenditures not properly certified.   | No               | Repeated as Finding Number 2010-002.   |
| 2008-002       | ORC 5705.42 – The Village did not record OPWC and OWDA on-behalf of transactions to the Village’s accounting records                  | No               | Repeated as Finding Number 2010-001.   |
| 2008-003       | ORC 5705.36(A)(4) – The Village had appropriations exceeding actual resources.  | No               | Repeated in the Management Letter.   |
| 2008-004       | ORC 5705.39 – The Village had appropriations exceeding estimated resources.   | No               | Repeated as Finding Number 2010-003.   |
| 2008-005       | ORC 5705.14, .15 and .16 – The Villaged had some transfers which did not meet the requirements of the ORC.                            | Yes              | Finding no longer valid.   |
| 2008-006       | ORC 5705.10(H) – The Village had some advances from funds with inconsistent purposes and the Village had some negative fund balances. | No               | Repeated as Finding Number 2010-004.   |
| 2008-007       | Cash Reconciliation – The Village had various issues with its cash reconciliations.   | No               | Repeated as Finding Number 2010-007.   |
| 2008-008       | Transaction Posting – The Village had various receipts and disbursements not posted the correct fund or account.                      | No               | Repeated as Finding Number 2010-006.   |
| 2008-009       | Mayor’s Court Procedures – The Village did not records its Mayor’s Court activity on the Village’s accounting records.                | Yes              | Finding no longer valid.   |



# Dave Yost • 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  
MAY 31, 2011**