



Dave Yost • Auditor of State

VILLAGE OF LEXINGTON
RICHLAND COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Lexington, Richland County, Ohio as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

November 30, 2015

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 231,953	\$ 361,713	\$ 593,666
Municipal Income Tax	1,500,689	-	1,500,689
Intergovernmental	131,880	472,176	604,056
Charges for Services	3,258	4,430	7,688
Fines, Licenses and Permits	43,000	525	43,525
Earnings on Investments	794	52	846
Donations	-	127,660	127,660
Miscellaneous	40,330	69,691	110,021
<i>Total Cash Receipts</i>	<u>1,951,904</u>	<u>1,036,247</u>	<u>2,988,151</u>
Cash Disbursements			
Current:			
Security of Persons and Property	885,671	169,605	1,055,276
Public Health Services	-	153,853	153,853
Leisure Time Activities	141,938	74,632	216,570
Community Environment	30,383	48,737	79,120
Transportation	-	577,294	577,294
General Government	479,096	257,197	736,293
Debt Service:			
Principal Retirement	-	13,755	13,755
<i>Total Cash Disbursements</i>	<u>1,537,088</u>	<u>1,295,073</u>	<u>2,832,161</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>414,816</u>	<u>(258,826)</u>	<u>155,990</u>
Other Financing Receipts (Disbursements)			
Transfers In	-	188,500	188,500
Transfers Out	(170,000)	(18,500)	(188,500)
Advances In	-	10,000	10,000
Advances Out	(10,000)	-	(10,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(180,000)</u>	<u>180,000</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	234,816	(78,826)	155,990
<i>Fund Cash Balances, January 1</i>	<u>301,857</u>	<u>504,373</u>	<u>806,230</u>
Fund Cash Balances, December 31			
Restricted	-	425,547	425,547
Assigned	429,210	-	429,210
Unassigned	107,463	-	107,463
<i>Fund Cash Balances, December 31</i>	<u>\$ 536,673</u>	<u>\$ 425,547</u>	<u>\$ 962,220</u>

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,262,170	\$ -	\$ 1,262,170
Miscellaneous	-	4,450	4,450
<i>Total Operating Cash Receipts</i>	<u>1,262,170</u>	<u>4,450</u>	<u>1,266,620</u>
Operating Cash Disbursements			
Personal Services	309,043	-	309,043
Travel Transportation	16,827	-	16,827
Contractual Services	284,067	-	284,067
Supplies and Materials	32,603	-	32,603
Refunds	1,634	4,650	6,284
<i>Total Operating Cash Disbursements</i>	<u>644,174</u>	<u>4,650</u>	<u>648,824</u>
<i>Operating Income (Loss)</i>	<u>617,996</u>	<u>(200)</u>	<u>617,796</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	10,825	-	10,825
Capital Outlay	(64,438)	-	(64,438)
Principal Retirement	(184,975)	-	(184,975)
Interest and Other Fiscal Charges	(198,511)	-	(198,511)
Fines and Forfeitures	-	54,298	54,298
Distribution of Fines	-	(53,324)	(53,324)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(437,099)</u>	<u>974</u>	<u>(436,125)</u>
<i>Income before Transfers</i>	180,897	774	181,671
Transfers In	57,509		57,509
Transfers Out	(57,509)		(57,509)
<i>Net Change in Fund Cash Balances</i>	180,897	774	181,671
<i>Fund Cash Balances, January 1</i>	<u>836,440</u>	<u>4,786</u>	<u>841,226</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 1,017,337</u>	<u>\$ 5,560</u>	<u>\$ 1,022,897</u>

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 236,117	\$ 367,787	\$ 603,904
Municipal Income Tax	1,619,493	-	1,619,493
Intergovernmental	90,085	470,940	561,025
Charges for Services	6,887	3,040	9,927
Fines, Licenses and Permits	53,621	655	54,276
Earnings on Investments	-	24	24
Donations	-	82,812	82,812
Miscellaneous	50,297	103,886	154,183
<i>Total Cash Receipts</i>	<u>2,056,500</u>	<u>1,029,144</u>	<u>3,085,644</u>
Cash Disbursements			
Current:			
Security of Persons and Property	955,900	164,212	1,120,112
Public Health Services	750	160,740	161,490
Leisure Time Activities	165,638	83,706	249,344
Community Environment	27,549	60,048	87,597
Transportation	-	658,088	658,088
General Government	520,361	25,440	545,801
Debt Service:			
Principal Retirement	-	13,755	13,755
<i>Total Cash Disbursements</i>	<u>1,670,198</u>	<u>1,165,989</u>	<u>2,836,187</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>386,302</u>	<u>(136,845)</u>	<u>249,457</u>
Other Financing Receipts (Disbursements)			
Transfers In	-	265,600	265,600
Transfers Out	(261,500)	(5,000)	(266,500)
Advances In	17,500	17,500	35,000
Advances Out	(17,500)	(17,500)	(35,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(261,500)</u>	<u>260,600</u>	<u>(900)</u>
<i>Net Change in Fund Cash Balances</i>	124,802	123,755	248,557
<i>Fund Cash Balances, January 1</i>	<u>177,055</u>	<u>380,618</u>	<u>557,673</u>
Fund Cash Balances, December 31			
Restricted	-	504,373	504,373
Assigned	31,545	-	31,545
Unassigned	270,312	-	270,312
<i>Fund Cash Balances, December 31</i>	<u>\$ 301,857</u>	<u>\$ 504,373</u>	<u>\$ 806,230</u>

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,077,208	\$ -	\$ 1,077,208
Miscellaneous	-	7,000	7,000
<i>Total Operating Cash Receipts</i>	<u>1,077,208</u>	<u>7,000</u>	<u>1,084,208</u>
Operating Cash Disbursements			
Personal Services	349,650	-	349,650
Travel Transportation	11,091	-	11,091
Contractual Services	224,874	-	224,874
Supplies and Materials	41,881	-	41,881
Refunds	7,861	6,900	14,761
<i>Total Operating Cash Disbursements</i>	<u>635,357</u>	<u>6,900</u>	<u>642,257</u>
<i>Operating Income</i>	<u>441,851</u>	<u>100</u>	<u>441,951</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	10,389	-	10,389
Capital Outlay	(22,375)	-	(22,375)
Principal Retirement	(188,384)	-	(188,384)
Interest and Other Fiscal Charges	(205,407)	-	(205,407)
Fines and Forfeitures	-	67,247	67,247
Distribution of Fines	-	(66,971)	(66,971)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(405,777)</u>	<u>276</u>	<u>(405,501)</u>
<i>Income before Transfers</i>	36,074	376	36,450
Transfers In	10,000	900	10,900
Transfers Out	(10,000)		(10,000)
<i>Net Change in Fund Cash Balances</i>	36,074	1,276	37,350
<i>Fund Cash Balances, January 1</i>	<u>800,366</u>	<u>3,510</u>	<u>803,876</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 836,440</u>	<u>\$ 4,786</u>	<u>\$ 841,226</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, 2014 AND 2013**

1. Summary of Significant Accounting Policies

A. Description of the Village

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lexington, Richland County, Ohio, (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 contracts with Troy Township to provide fire protection services.

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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Village has no investments.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. 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.

4. 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.

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. 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 approve estimated resources.

VILLAGE OF LEXINGTON
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

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

E. **Budgetary Process (Continued)**

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.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. **Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. **Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. **Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. **Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

H. 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

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

	2014	2013
Demand deposits	\$1,291,876	\$957,638
Certificates of deposit	692,850	689,818
Total deposits	\$1,984,726	\$1,647,456

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,010,070	\$1,951,904	(\$58,166)
Special Revenue	1,405,366	1,234,747	(170,619)
Enterprise	1,101,195	1,330,504	229,309
Total	\$4,516,631	\$4,517,155	\$524

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. Budgetary Activity (Continued)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,953,936	\$1,738,939	\$214,997
Special Revenue	1,516,670	1,352,671	163,999
Enterprise	1,270,510	1,171,805	98,705
Total	\$4,741,116	\$4,263,415	\$477,701

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,841,750	\$2,074,000	\$232,250
Special Revenue	1,358,920	1,312,244	(46,676)
Enterprise	1,073,084	1,097,597	24,513
Total	\$4,273,754	\$4,483,841	\$210,087

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,013,708	\$1,980,744	\$32,964
Special Revenue	1,533,319	1,211,249	322,070
Enterprise	1,139,890	1,084,484	55,406
Total	\$4,686,917	\$4,276,477	\$410,440

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.

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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.

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. Debt

Debt outstanding at December 31, 2014 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC CP12L Wastewater Treatment Improvements	\$ 77,500	0%
OPWC CP23I Water Main Replacement	34,494	0%
OPWC CP20J Water Treatment Plant Upgrade	197,678	0%
OPWC CP28J Water Treatment Plant Upgrade	322,657	0%
Ohio Water Development Authority Loan 4931	4,137,718	4.65%
Total	<u>\$ 4,770,047</u>	

The Ohio Public Works Commission (Wastewater Treatment Improvements) Loan number CP12L was entered into in 2010 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 Ohio Public Works Commission (OPWC) (Water Main Replacement) Loan number CP23I was entered into in 2008 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 in 2010 to finance the upgrade of water lines. This loan is broken out between two project numbers. The first project number CP20J will be repaid in semi-annual installments of \$6,589, with no interest through January 2030, while the second project number CP28J will be repaid in semi-annual installments of \$6,453, with no interest through January 2040. The loan is collateralized by the Village's taxing authority.

The Ohio Water Development Authority Loan was entered into in 2010 to finance water and sewer plant expansion. 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.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

6. Debt (Continued)

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

Year ending December 31:	OPWC CP12L (Wastewater Treatment Plant)	OPWC CP20J (Water Treatment Plant Upgrade)	OPWC CP23I (Water Main Replacement)	OPWC CP28J (Water Treatment Plant Upgrade)	OWDA
2015	\$5,000	\$13,178	\$2,653	\$12,907	\$281,660
2016	5,000	13,178	2,653	12,907	281,660
2017	5,000	13,178	2,653	12,907	281,660
2018	5,000	13,178	2,653	12,907	281,660
2019	5,000	13,178	2,653	12,907	281,660
2020-2024	25,000	65,894	13,265	64,531	1,408,300
2025-2029	25,000	65,894	7,964	64,531	1,408,300
2030-2034	2,500			64,530	1,408,300
2035-2039				64,530	1,408,300
Total	<u>\$77,500</u>	<u>\$197,678</u>	<u>\$34,494</u>	<u>\$322,657</u>	<u>\$7,041,500</u>

7. 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 July 1, 2014 to December 31, 2014, OP&F participants contributed 11.5% of their wages. For July 1, 2013 to June 30, 2014, OP&F participants contributed 10.75% of their wages. For January 1, 2013 to June 30, 2013, OP&F participants contributed 10% of their wages. For 2014 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2014 and 2013, 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, 2014.

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated November 30, 2015, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2014-001 through 2014-003 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Village's Response to Findings

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.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

November 30, 2015

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Posting Errors

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.10(D) indicates all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose and shall be paid into a special fund for such purpose.

During 2014 and 2013, the Village posted \$12,413 and \$12,333, respectively, of permissive tax distributions from the Ohio Department of Public Safety to the General Fund, Street Fund, State Highway Fund, and Law Enforcement Fund, rather than posting it to the Permissive Sales Tax Fund. As a result, the General Fund, Street Fund, State Highway Fund and Law Enforcement Fund cash balances were overstated \$1,001, \$9,561, \$775, and \$1,076, respectively, as of December 31, 2014, and the Street Fund, State Highway Fund and Law Enforcement Fund cash balances were overstated \$836, \$68, and \$11,429, respectively, as of December 31, 2013.

During 2014 and 2013, \$708 and \$4,014, respectively, of General Fund Local Government Revenues were incorrectly posted to the Street Fund and State Highway Fund of \$655 and \$53, respectively, for 2014, and the Permissive Sales Tax Fund of \$4,014, for 2013.

These amounts were adjusted to the Village's accounting system and financial statements.

The Village should exercise due care when posting receipts to ensure receipts are posted to the correct funds. This will help more accurately reflect the Village's financial activity and will aid in more accurate financial reporting.

Officials' Response: The Village will properly record all expenses and receipts in the future and will post to proper fund and accounts to reflect more accurate figures.

FINDING NUMBER 2014-002

Bank to Book Reconciliation and Appropriate Oversight/Monitoring

Material Weakness

Strong monitoring practices of Village financial activities are the responsibility of management and Village Council and are essential to ensure proper financial reporting. A bank to book reconciliation should be performed monthly and reconciling items should be identified and adjusted at the time the reconciling item or error is discovered. Reconciliations should include all bank accounts and book balances. Approved estimates of receipts and disbursements from certificates of estimated resources or appropriation measures should be entered into the accounting system to enable meaningful budget vs. actual comparisons. Additionally, management and Village Council should review the monthly financial reports of financial activity of the Village including budgeted versus actual receipts and expenditures, fund balance reports, and bank to book reconciliations. Evidence of these reviews should be documented.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2014-002 (Continued)

During 2014, the Village did not perform bank to book reconciliations. As a result, the December 31, 2014 reconciliation was performed by the client after year end. During testing of the December 31, 2014 reconciliation, we noted the Village identified \$156,316 of reconciling items due to posting errors, but the difference between the bank and book balance was only \$155,925, resulting in an unknown variance of \$391. The following are discrepancies noted in the Village's bank reconciliation:

- The Village failed to post a December 2014 Water and Sewer receipt in the amount of \$122,363 which had been deposited by Village staff. This resulted in an understatement of receipts.
- The Village failed to post a December 2014 intergovernmental receipt in the amount of \$18,247 which had been transferred to the Village via electronic fund transfer. This resulted in an understatement of receipts.
- The Village failed to post a December 2014 Depot donation and sales receipt in the amount of \$1,343 which had been deposited by Village staff. This resulted in an understatement of receipts.
- The Village had recorded disbursements on their books and transferred the same amount to their Health bank account during 2014. However, the actual disbursements paid from the Health bank account were less than the booked disbursements, resulting in an overstatement of disbursements by \$7,967.
- The Village failed to post December 2014 interest from all of their bank accounts and certificates of deposit in the amount of \$796. This resulted in an understatement of receipts.
- The Village posted \$4,261 as an expense in February 2014 in error when attempting to make a correction to an entry. This resulted in an overstatement of disbursements.
- The Mayor's Court receipts and disbursements for 2014 were not posted in their entirety, resulting in an understatement of fund balance of \$1,339.

These errors were adjusted to the Village's accounting system and financial statements.

As a result of not performing the bank to book reconciliation timely, errors could go undetected resulting in inaccurate financial information being submitted to Village Council.

We recommend the Village reconcile all bank accounts to the books on a timely basis. In this process, all reconciling items or errors should be identified and included on the face of the reconciliation. All unreconciled balances should be researched in order to find the known source of the error. All errors should be corrected on the Village's ledgers following the completion of the reconciliation. As a monitoring control, we recommend the monthly bank reconciliation be reviewed and approved by an individual with appropriate fiscal authority and by Council and that evidence of these reviews and approvals be documented.

Further, we recommend the Village Council ensure that strong monitoring practices of Village financial activities are implemented and operating effectively. This includes, but is not limited to, management and Council reviewing monthly financial reports and ensuring that they accurately represent underlying budgeted and actual financial activities and cash balances. Evidence of Council's reviews should be documented in the minutes, and evidence of management's reviews should be documented by having management sign and date the reports they reviewed.

Officials' Response: The Village will perform monthly reconciliations and prepare monthly reports in a more timely and consistent manner. These reconciliations and reports will be available to the Mayor, Council and management.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2014-003

Mayor's Court Activity

Material Weakness

The Village does not always 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.

For 2014, \$50,881 of receipts and \$49,541 of disbursements were adjusted to the agency fund's financial statements and the Village's accounting system to reflect the Mayor's Court Activity. For 2013, \$463 of receipts and \$462 of disbursements were not recorded on the Village's books. These were reported to management as unadjusted amounts.

Not recording all of the Mayor's Court activity results in not reporting the Village's entire activity on the financial statements, 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. Additionally, amounts posted to the agency fund should be reconciled to the Mayor's court records and recorded in the proper month. Fines and costs due to the State and other entities should be paid from the Agency Fund. This will allow for the entire activity of the Village to be included on the books, help facilitate Council's financial activity review, and will help ensure more accurate financial statements.

Officials' Response: The record keeping with the Mayor's Court has been addressed and will be properly recorded in 2016. We realize 2015 will be an issue, based off of the current Audit findings and current recording practices. These issues should be resolved starting in Jan 2016.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Mayor's Court – Material Weakness – There were errors in recording the mayor's court activity during 2012 and 2011.	No	Repeated as finding 2014-003
2012-002	Cash Reconciliations – Significant Deficiency – The 2012 and 2011 bank reconciliations contained errors in the reconciliations.	No	Repeated as finding 2014-002



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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
JANUARY 21, 2016**