

***VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2003 & 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Village Council
Village of Lexington
44 West Main Street
Lexington, Ohio 44904

We have reviewed the *Independent Accountants' Report* of the Village of Lexington, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 6, 2006

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**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2003 and 2004**

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INDEPENDENT ACCOUNTANTS' REPORT

Village Council
Village of Lexington
Lexington, Ohio 44904

We have audited the accompanying financial statements of the Village of Lexington, Richland County (the Village), as of and for the years ended December 31, 2003 and 2004, as listed in the table of contents. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared its 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. Although we cannot reasonably determine the effects on the financial statements of the variance between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2003 and 2004, instead of the combined funds the accompanying financial statements present for 2003 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major fund) funds separately for 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP measure financial statement amounts, 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 paragraph, the financial statements referred to above for the year ended December 31, 2003 and 2004 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, 2003 and 2004, or its changes in financial position for the year 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, 2003 and 2004 and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2005 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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
August 24, 2005

VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH
BALANCES - ALL FUND TYPES
As of December 31, 2003 and 2004

	<u>2003</u> <u>Balances</u>	<u>2004</u> <u>Balances</u>
Cash and Cash Equivalents	\$ 225,328	\$ 564,580
Investments	<u>771,003</u>	<u>784,796</u>
	<u>\$ 996,331</u>	<u>\$ 1,349,376</u>

Cash Balances By Fund Class

Governmental Fund Types:

General Fund	\$ 497,884	295,391
Special Revenue Funds	114,491	154,895
Debt Service Funds	10,169	496,113
Capital Projects Funds	97,362	56,536

Proprietary Fund Type:

Enterprise Funds	<u>276,425</u>	<u>346,441</u>
Total	<u>\$ 996,331</u>	<u>\$ 1,349,376</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
 CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2003

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Other Local taxes	\$ 282,783	\$ 139,683	-	-	\$ 422,466
Municipal Income Taxes	1,256,622	-	-	-	1,256,622
Intergovernmental	132,969	307,138	-	\$ 32,274	472,381
Special Assessments	-	-	\$ 12,251	-	12,251
Charges for Services	2,090	1,875	-	-	3,965
Fines, Licenses, and Permits	50,935	375	-	-	51,310
Investment Income	22,142	556	-	-	22,698
Miscellaneous	13,162	25,475	-	-	38,637
Total Receipts	1,760,703	475,102	12,251	32,274	2,280,330
Disbursements:					
Security of Persons & Property	675,782	107,370	-	-	783,152
General Government	563,200	-	-	-	563,200
Leisure Time Activities	186,270	9,960	-	-	196,230
Transportation	-	495,509	-	-	495,509
Community Environment	46,391	62,731	-	-	109,122
Capital Outlay	35,381	158,388	-	88,500	282,269
Debt Service:					
Redemption of Principal	-	-	75,000	28,712	103,712
Interest and Other Fiscal Charges	-	-	17,729	-	17,729
Total Disbursements	1,507,024	833,958	92,729	117,212	2,429,482
Excess of Receipts Over/(Under) Disbursements	253,679	(358,856)	(80,478)	(84,938)	(149,152)
Other Financing Sources/(Uses):					
Sale of Notes	41,000	-	-	-	41,000
Transfers-In	-	336,100	76,755	129,000	541,855
Transfers-Out	(356,100)	-	-	-	(356,100)
Advances-In	35,000	35,000	-	-	70,000
Advances-Out	(35,000)	(35,000)	-	-	(70,000)
Total Other Financing Sources/(Uses)	(315,100)	336,100	76,755	129,000	226,755
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	(61,421)	(22,756)	(3,723)	44,062	(43,838)
Fund Balance January 1, 2003, Restated	559,305	137,247	13,892	53,300	763,744
Fund Balance December 31, 2003	\$ 497,884	\$ 114,491	\$ 10,169	\$ 97,362	\$ 719,906
Reserve for Encumbrances, December 31	\$ 10,540	\$ 13,367	\$ -	\$ 75,574	\$ 99,481

See accompanying Notes to the Financial Statements.

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
 CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2004

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Other Local taxes	\$ 269,809	\$ 123,761	-	-	\$ 393,570
Municipal Income Taxes	1,256,498	-	-	-	1,256,498
Intergovernmental	143,473	274,119	\$ 11,519	\$ 69,759	498,870
Charges for Services	1,965	-	-	-	1,965
Fines, Licenses, and Permits	66,279	703	-	-	66,982
Investment Income	15,478	455	492	-	16,425
Miscellaneous	18,407	62,723	5,297	-	86,427
Total Receipts	1,771,909	461,761	17,308	69,759	2,320,737
Disbursements:					
Security of Persons & Property	768,265	69,634	-	-	837,899
Leisure Time Activities	182,159	5,758	-	-	187,917
Transportation	-	525,491	-	-	525,491
General Government	555,969	-	-	-	555,969
Community Environment	55,562	49,425	-	-	104,987
Capital Outlay	100,496	46,198	-	149,805	296,499
Debt Service:					
Redemption of Principal	-	28,266	200,000	36,030	264,296
Interest and Other Fiscal Changes	-	135	99,599	-	99,734
Total Disbursements	1,662,451	724,907	299,599	185,835	2,872,792
Excess of Receipts Over/(Under) Disbursements	109,458	(263,146)	(282,291)	(116,076)	(552,055)
Other Financing Sources/(Uses):					
Sale of Bonds	-	-	695,000	-	695,000
Sale of Fixed Assets	1,199	11,900	-	-	13,099
Transfers-In	-	291,650	73,235	40,000	404,885
Transfers-Out	(291,650)	-	-	-	(291,650)
Advances-In	10,500	10,500	-	35,250	56,250
Advances-Out	(32,000)	(10,500)	-	-	(42,500)
Total Other Financing Sources/(Uses)	(311,951)	303,550	768,235	75,250	835,084
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	(202,493)	40,404	485,944	(40,826)	283,029
Fund Balance January 1, 2004	497,884	114,491	10,169	97,362	719,906
Fund Balance December 31, 2004	\$ 295,391	\$ 154,895	\$ 496,113	\$ 56,536	\$ 1,002,935
Reserve for Encumbrances, December 31	\$ 6,601	\$ 9,231	\$ 182,653	\$ 14,450	\$ 212,935

See accompanying Notes to the Financial Statements.

VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
For the Year Ended December 31, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Agency	(Memorandum Only)
Receipts:			
Charges for Services	\$ 638,155	-	\$ 638,155
Fines and Forfeitures	-	\$ 4,598	4,598
Total Receipts	638,155	4,598	642,753
Disbursements:			
Personal Services	213,767	-	213,767
Travel Transportation	1,860	-	1,860
Contractual Services	88,358	-	88,358
Materials and Supplies	67,892	-	67,892
Capital Outlay	4,122	-	4,122
Refunds	1,972	-	1,972
Miscellaneous	14,250	-	14,250
Total Disbursements	392,221	-	392,221
Excess Receipts Over/(Under) Disbursements	245,934	-	245,934
Non-Operating Receipts/(Disbursements):			
Special Assessments	3,107	-	3,107
Other Financing Sources	1,192	-	1,192
Debt Service:			
Principal	(36,400)	-	(36,400)
Interest	(4,600)	-	(4,600)
Distribution of Fines	-	(4,598)	(4,598)
Total Non-Operating Receipts/(Disbursements)	(36,701)	-	(36,701)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	209,233	-	209,233
Transfer-Out	(185,755)	-	(185,755)
Net Receipts Over/(Under) Disbursements	23,478	-	23,478
Fund Balance January 1, 2003	252,947	-	252,947
Fund Balance December 31, 2003	\$ 276,425	\$ -	\$ 276,425
Reserve for Encumbrances, December 31	\$ 2,219	\$ -	\$ 2,219

See accompanying Notes to the Financial Statements.

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN FUND CASH BALANCES - PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
 For the Year Ended December 31, 2004

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Agency	(Memorandum Only)
Receipts:			
Charges for Services	\$ 678,750	-	\$ 678,750
Fines and Forfeitures	-	\$ 5,031	5,031
Miscellaneous	9,591	-	9,591
Total Receipts	688,341	5,031	693,372
Disbursements:			
Personal Services	247,430	-	247,430
Travel Transportation	2,616	-	2,616
Contractual Services	115,392	-	115,392
Material and Supplies	70,655	-	70,655
Capital Outlay	47,559	-	47,559
Refund	327	-	327
Miscellaneous	7,362	-	7,362
Total Disbursements	491,340	-	491,340
Excess Receipts Over/(Under) Disbursements	197,001	-	202,032
Non-Operating Disbursements			
Distribution of Fines	-	(5,031)	(5,031)
Total Non-Operating Disbursements	-	(5,031)	(5,031)
Excess of Receipts Over/(Under)			
Disbursements Before Interfund Transfers/Advances	197,001	-	207,063
Transfers-Out	(113,235)	-	(113,235)
Advances- In	44,500	-	44,500
Advances-Out	(58,250)	-	(58,250)
Net Receipts Over/(Under) Disbursements	70,016	-	(126,985)
Fund Balance January 1, 2004	276,425	-	276,425
Fund Balance December 31, 2004	\$ 346,441	\$ -	\$ 346,441
Reserve for Encumbrances, December 31	\$ 2,164	\$ -	\$ 2,164

See accompanying Notes to the Financial Statements.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Lexington, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and by its Citizen-approved Village Charter. The Citizens of Lexington, voted on November 2, 1976, to adopt the Charter of the Municipality of Lexington, effective as of January 1, 1978. The Village is directed by a publicly-elected seven-member council. The Village provides water and sewer utilities, park operations, and police services.

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

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

The Village holds interim demand deposits. Certificates of deposit are valued at cost. The investment in STAROhio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as cash disbursements and sales of investments are not recorded as cash receipts. Gains or losses at the time of sale are recorded as cash receipts or cash disbursements, respectively.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, and accounting entity, which stands separate from the activities, reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

1. General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.
2. Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village has twelve Special Revenue Funds of which the following are significant:

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

Parks and Recreation Fund – This fund receives general and tangible personal property tax money for the operations of the Village parks department.

3. Debt Service Funds: These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has four debt service funds of which the following are significant:

Water Treatment Plant Debt Service Fund – This fund is used to accumulate resources for the payment of bonds obtained to help finance the repair and maintenance of the water treatment plant.

Orchard Park Road Bond Fund – This fund is used to accumulate resources for the payment of bonds obtained to help finance road repair, maintenance, and improvement projects surrounding the Orchard Park.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

Sewer Improvement Bond Fund – This fund is used to accumulate resources for the payment of bonds obtained to help finance road repair, maintenance, and improvements to sewer projects.

Water Improvement Bond Fund - This fund is used to accumulate resources for the payment of bonds obtained to help finance road repair, maintenance, and improvements to water projects.

4. Capital Project Funds: These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village has five capital projects funds of which the following are significant:

Sewer Improvement Fund – This fund is used to account for receipts restricted for the construction of major capital projects related to the sewer line.

Water Improvement Fund – This fund is used to account for receipts restricted for the construction of major capital projects related to the water lines.

5. Enterprise Funds: These funds account for operations that are similar to a private business enterprise where management intends that the significant costs of providing certain goods or services will be through user charges. The Village has the following significant Enterprise Funds:

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

6. Fiduciary Funds (Trust and Agency Funds): Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. The Village had no trust funds. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village has the following significant fiduciary fund:

Mayor's Court Agency Fund – This fund accounts for the receipts and disbursements of fines and fees collected by the Village's Mayor's Court.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

E. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually.

1. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus encumbered cash as of January 1. The County Budget Commission must also approve the annual appropriation measure.

2. 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.

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 2003 and 2004 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2003 and 2004**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2004	2003
Demand deposits	\$564,270	\$ 225,018
Certificate of deposit	668,830	766,465
Total deposits	1,233,100	991,483
STAR Ohio	115,966	4,538
Total Investments	115,966	4,538
Cash on Hand	310	310
Total Deposits and Investments	<u>\$1,349,376</u>	<u>\$ 996,331</u>

Deposits: The bank balance are either 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, 2004 and 2003, follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,767,494	\$1,783,608	\$ 16,114
Special Revenue	766,491	775,811	9,320
Debt Service	901,514	785,543	(115,971)
Capital Projects	408,466	145,009	(263,457)
Enterprise	735,198	732,841	(2,357)
Total	<u>\$4,579,163</u>	<u>\$4,222,812</u>	<u>(\$356,351)</u>

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2003 and 2004**

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,995,652	\$1,992,702	\$2,950
Special Revenue	793,104	744,638	48,466
Debt Service	822,958	482,252	340,706
Capital Projects	179,353	200,285	(20,932)
Enterprise	735,299	664,989	70,310
Total	<u>\$4,526,366</u>	<u>\$4,084,866</u>	<u>\$441,500</u>

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,828,186	\$1,836,703	\$8,517
Special Revenue	845,549	846,202	653
Debt Service	89,006	89,006	0
Capital Projects	161,274	161,274	0
Enterprise	642,706	642,454	(252)
Total	<u>\$3,566,721</u>	<u>\$3,575,639</u>	<u>\$8,918</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,906,887	\$1,908,664	\$(1,777)
Special Revenue	877,266	882,325	(5,059)
Debt Service	94,199	92,729	(1,470)
Capital Projects	165,763	192,786	(27,023)
Enterprise	635,947	621,195	14,752
Total	<u>\$3,680,062</u>	<u>\$ 3,697,699</u>	<u>\$(20,577)</u>

4. PROPERTY TAX

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2003 and 2004**

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as Intergovernmental Receipts.

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

The Richland County Treasurer collects property tax on behalf of all taxing Village within the county. The Richland County Auditor periodically remits to the taxing Village their portions of the taxes collected.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. The Village offers up to a .5% reciprocity credit on all income taxed by another municipality.

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

6. DEBT

The debt balance as of December 31, 2002 was misstated. The correct balance was \$760,543. Debt outstanding at December 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Case Loader/Wheel	\$ 68,695	5.10%
Bomag Roller	8,095	4.75%
Camera	31,101	5.00%
Leaf Loader	16,000	11.00%
Orchard Park Road Improvement Bond	35,000	5.35%
Ohio Public Works Commission Loan(Steam Corner Road)	107,150	0.00%
Ohio Public Works Commission Loan(Water Plant)	131,094	0.00%
Various Purpose Bonds, Series 2004	<u>695,000</u>	Various
Total	<u>\$ 1,092,135</u>	

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

- The Orchard Park Road Improvement Bonds were issued in September 1995 in the original amount of \$355,000, in anticipation of the collection of special assessments levied against property owners for the purpose of constructing water and sanitary sewer lines. These bonds are general obligations of the Village and bear interest at a rate of 5.35%.
- The Ohio Public Works Commission Loan (Steam Corner Road) was approved in August 1995 in the original amount of \$214,300 for the purpose of constructing water and sanitary sewer lines. These bonds are general obligations of the Village and bear no interest.
- Various Purpose Bonds, series 2004 were issued in June 2004 in the original amount of \$695,000 for the purpose of making certain improvements to the municipal water system. These bonds are general obligation of the Village and bear interest at a variable rate of 2.25 to 4.75 percent.
- On July 1, 2002, the Village entered into an agreement with the Ohio Public Works Commission (OPWC) to finance a water tank, pumping system and bridge replacement project. Under the agreement, the Village issued a promissory note payable to the OPWC in the amount of \$145,660. The note is a general obligation of the Village with 0% interest rate and is due in 10 equal annual installments commencing upon completion of the project.
- In 2004, the Village entered into various lease agreements for equipment. Those lease payments are due in 5 equal annual installments. The inception of these leases are not reflected on the financial statements under the Village's basis of accounting.

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

	Case Loader Wheels	Bomag Roller	Camera	Leaf Loader	OPWC (Steam Corner)	OPWC (Water Tower)	Various Purp. Bonds Series 2004	Orchard Rd. Improvement Bond
2005	\$ 19,889	\$ 2,321	\$ 8,771	\$ 4,458	\$ 21,430	\$ 14,566	\$ 115,325	\$ 47,407
2006	19,889	2,321	8,771	4,458	21,430	14,566	113,310	
2007	19,889	2,321	8,771	4,458	21,430	14,566	115,835	
2008	19,889	2,321	8,771	4,458	21,430	14,566	72,748	
2009					21,430	14,566	70,823	
2010-2014						58,264	279,368	
Total	\$ 79,556	\$ 9,284	\$ 35,084	\$ 17,832	\$ 107,150	\$ 131,094	\$ 767,409	\$ 47,407

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2004**

7. RETIREMENT SYSTEMS

The Village's full-time law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an equal amount equal to 13.55% of participants' gross salaries. The Village has paid all contribution required through December 31, 2004.

8. RISK MANAGEMENT

The Village is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal years 2003 and 2004, the Village contracted with one insurance company for coverage of buildings and contents. The following is a list of insurance coverages of the Village:

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

The Village also provides health insurance, life insurance, and disability coverage to full-time employees through a private carrier. Under the Village's old plan, the Village paid a deductible for the first \$15,000 of claims for each employee in addition a monthly premium. During 2003, the Village changed to a fully funded plan.

There were no significant reductions in coverage from the prior year and claims have not exceeded insurance coverages in any of the past three years. The Village pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is based on accident history and administrative costs.

9. SUBSEQUENT EVENTS/PENDING LITIGATION

In 2005, the Village entered into an agreement with the Ohio Public Works Commission (OPWC) to finance a water main replacement project. Under the agreement, the Village issued a promissory note payable to the OPWC in the amount of \$109,440. The note is a general obligation of the Village with 0% interest rate and is due in 20 equal annual installments commencing upon completion of the project.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2003 and 2004**

It is management's belief that there are no pending lawsuits or litigation.

10. PRIOR PERIOD ADJUSTMENT

(a) The Village previously reported the activities of the Cable TV Fund, Gifts and Donations Fund as a Special Revenue Funds as well as an Agency Fund. The Agency Fund should have been eliminated.

(b) Errors noted in prior year audit report.

The correction of these errors had the following effect on previously reported fund balances.

	<u>Agency Fund Type</u>	<u>General Fund</u>	<u>Special Revenue Fund Type</u>	<u>Capital Projects Fund Type</u>
December 31, 2002 Fund Balance, as previously reported	\$ 4,086	\$ 535,205	\$ 162,203	\$ 52,445
Prior Period Adjustment	<u>(4,086) a</u>	<u>24,100 b</u>	<u>(24,956) b</u>	<u>855 b</u>
January 1, 2003 Fund Balance, as restated	<u>\$ -</u>	<u>\$ 559,305</u>	<u>\$ 137,247</u>	<u>\$ 53,300</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Village Council
Village of Lexington
Lexington, Ohio 44904

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, 2003 and 2004, and have issued our report thereon dated August 24 2005, wherein we noted that the Village followed accounting practices the auditor of State prescribes 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts cause by error or fraud that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village In a separate letter dated August 24, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated August 24, 2005.

This report is intended for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
August 24, 2005

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 SCHEDULE OF PRIOR AUDIT FINDINGS
 DECEMBER 31,2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	ORC section 5705.41 (D): Certification of Availability of funds for expenditure	No	Partially Corrected. Reissued in Management Letter
2002-002	ORC section 5705.39 Total appropriations from each fund exceeded total estimated resources from each fund. Obtaining certification from county auditor.	No	Partially Corrected. Reissued in Management Letter



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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
MARCH 16, 2006**