



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, 2012 and 2011.

### ***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 of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fair 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, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***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, 2012 and 2011, 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, 2012 and 2011, 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 permits, described in Note 1.

***Emphasis of Matter***

During 2011, the Village of Lexington adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, 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

March 15, 2013

**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, 2012**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$235,302	\$365,127	\$600,429
Municipal Income Tax	1,505,937		1,505,937
Intergovernmental	102,289	326,457	428,746
Charges for Services	6,018	11,350	17,368
Fines, Licenses and Permits	52,226	205	52,431
Earnings on Investments	3,133	19	3,152
Donations		64,048	64,048
Miscellaneous	9,841	70,061	79,902
<i>Total Cash Receipts</i>	<u>1,914,746</u>	<u>837,267</u>	<u>2,752,013</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	993,565	180,300	1,173,865
Public Health Services		211,912	211,912
Leisure Time Activities	179,186	123,116	302,302
Community Environment	32,479	47,189	79,668
Transportation		652,456	652,456
General Government	534,399	7,994	542,393
Debt Service:			
Principal Retirement		31,464	31,464
<i>Total Cash Disbursements</i>	<u>1,739,629</u>	<u>1,254,431</u>	<u>2,994,060</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>175,117</u>	<u>(417,164)</u>	<u>(242,047)</u>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Capital Assets	256	171	427
Transfers In		321,875	321,875
Transfers Out	(321,875)		(321,875)
Advances In	35,000	35,000	70,000
Advances Out	(35,000)	(35,000)	(70,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(321,619)</u>	<u>322,046</u>	<u>427</u>
<i>Net Change in Fund Cash Balances</i>	<u>(146,502)</u>	<u>(95,118)</u>	<u>(241,620)</u>
<i>Fund Cash Balances, January 1</i>	<u>323,557</u>	<u>475,736</u>	<u>799,293</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		380,618	380,618
Assigned	955		955
Unassigned	176,100		176,100
<i>Fund Cash Balances, December 31</i>	<u>\$177,055</u>	<u>\$380,618</u>	<u>\$557,673</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, 2012**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$1,002,213		\$1,002,213
Miscellaneous	1,174	\$6,200	7,374
<i>Total Operating Cash Receipts</i>	<u>1,003,387</u>	<u>6,200</u>	<u>1,009,587</u>
<b>Operating Cash Disbursements</b>			
Personal Services	334,740		334,740
Travel Transportation	13,129		13,129
Contractual Services	208,908		208,908
Supplies and Materials	52,563		52,563
Refunds	322	6,800	7,122
Other	6,725		6,725
<i>Total Operating Cash Disbursements</i>	<u>616,387</u>	<u>6,800</u>	<u>623,187</u>
<i>Operating Income (Loss)</i>	<u>387,000</u>	<u>(600)</u>	<u>386,400</u>
<b>Non-Operating Cash Receipts (Cash Disbursements)</b>			
Special Assessments	9,986		9,986
Capital Outlay	(30,828)		(30,828)
Principal Retirement	(186,966)		(186,966)
Interest and Other Fiscal Charges	(211,808)		(211,808)
Fines and Forfeitures		67,936	67,936
Distribution of Fines		(70,675)	(70,675)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(419,616)</u>	<u>(2,739)</u>	<u>(422,355)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(32,616)</u>	<u>(3,339)</u>	<u>(35,955)</u>
<i>Fund Cash Balances, January 1</i>	<u>832,982</u>	<u>6,849</u>	<u>839,831</u>
<i>Fund Cash Balances, December 31</i>	<u>\$800,366</u>	<u>\$3,510</u>	<u>\$803,876</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, 2011**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$250,104	\$378,902		\$629,006
Municipal Income Tax	1,439,264			1,439,264
Intergovernmental	141,896	356,131		498,027
Charges for Services	338	8,143		8,481
Fines, Licenses and Permits	53,748	595		54,343
Earnings on Investments	3,946	128		4,074
Donations	800	86,752		87,552
Miscellaneous	23,093	83,199		106,292
<i>Total Cash Receipts</i>	<u>1,913,189</u>	<u>913,850</u>		<u>2,827,039</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	935,047	204,424		1,139,471
Public Health Services		278,088		278,088
Leisure Time Activities	199,524	60,820		260,344
Community Environment	27,443	38,669		66,112
Transportation		615,411		615,411
General Government	520,295	7,042		527,337
Debt Service:				
Principal Retirement		31,464		31,464
<i>Total Cash Disbursements</i>	<u>1,682,309</u>	<u>1,235,918</u>		<u>2,918,227</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>230,880</u>	<u>(322,068)</u>		<u>(91,188)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Sale of Capital Assets	9,705	331		10,036
Transfers In	2,793	335,275		338,068
Transfers Out	(330,000)	(7,792)	(\$276)	(338,068)
Advances In	35,000	35,000		70,000
Advances Out	(35,000)	(35,000)		(70,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(317,502)</u>	<u>327,814</u>	<u>(276)</u>	<u>10,036</u>
<i>Net Change in Fund Cash Balances</i>	(86,622)	5,746	(276)	(81,152)
<i>Fund Cash Balances, January 1</i>	<u>410,179</u>	<u>469,990</u>	<u>276</u>	<u>880,445</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		475,736		475,736
Assigned	22,460			22,460
Unassigned	301,097			301,097
<i>Fund Cash Balances, December 31</i>	<u>\$323,557</u>	<u>\$475,736</u>	<u>\$0</u>	<u>\$799,293</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, 2011**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$1,051,373		\$1,051,373
Miscellaneous		\$7,500	7,500
<i>Total Operating Cash Receipts</i>	<u>1,051,373</u>	<u>7,500</u>	<u>1,058,873</u>
<b>Operating Cash Disbursements</b>			
Personal Services	325,930		325,930
Travel Transportation	14,758		14,758
Contractual Services	194,763		194,763
Supplies and Materials	55,332		55,332
Refunds	801	7,600	8,401
Other	9,332		9,332
<i>Total Operating Cash Disbursements</i>	<u>600,916</u>	<u>7,600</u>	<u>608,516</u>
<i>Operating Income (Loss)</i>	<u>450,457</u>	<u>(100)</u>	<u>450,357</u>
<b>Non-Operating Cash Receipts (Cash Disbursements)</b>			
Special Assessments	9,678		9,678
Loan Proceeds	46,972		46,972
Capital Outlay	(77,394)		(77,394)
Principal Retirement	(168,994)		(168,994)
Interest and Other Fiscal Charges	(217,892)		(217,892)
Fines and Forfeitures		72,682	72,682
Distribution of Fines		(70,767)	(70,767)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(407,630)</u>	<u>1,915</u>	<u>(405,715)</u>
<i>Net Change in Fund Cash Balances</i>	42,827	1,815	44,642
<i>Fund Cash Balances, January 1</i>	<u>790,155</u>	<u>5,034</u>	<u>795,189</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$832,982</u></u>	<u><u>\$6,849</u></u>	<u><u>\$839,831</u></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, 2012 AND 2011**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio 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 contracts with Troy Township to receive 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 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.

STAR Ohio is recorded at share value of the mutual funds report.

**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.

**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:

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, 2012 AND 2011  
(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.

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. Capital Project Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The fund was closed in 2011.

**4. 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.

**5. 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.

VILLAGE OF LEXINGTON  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

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 2012 and 2011 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.

VILLAGE OF LEXINGTON  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

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

F. **Fund Balance (Continued)**

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.

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.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**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:

	2012	2011
Demand deposits	\$604,636	\$885,520
Certificates of deposit	756,913	357,816
Total deposits	1,361,549	1,243,336
STAR Ohio	-	395,788
Total deposits and investments	\$1,361,549	\$1,639,124

**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, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,985,500	\$1,915,002	(\$70,498)
Special Revenue	1,163,300	1,159,313	(3,987)
Enterprise	1,120,104	1,013,373	(106,731)
Total	\$4,268,904	\$4,087,688	(\$181,216)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,605,792	\$2,062,459	\$543,333
Special Revenue	1,386,771	1,260,309	126,462
Enterprise	1,139,223	1,047,274	91,949
Total	\$5,131,786	\$4,370,042	\$761,744

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**3. Budgetary Activity (Continued)**

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,898,500	\$1,925,687	\$27,187
Special Revenue	1,195,100	1,249,456	54,356
Enterprise	1,120,815	1,108,023	(12,792)
Total	\$4,214,415	\$4,283,166	\$68,751

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,247,733	\$2,034,769	\$212,964
Special Revenue	1,485,928	1,256,394	229,534
Capital Projects	276	276	0
Enterprise	1,437,536	1,069,472	368,064
Total	\$5,171,473	\$4,360,911	\$810,562

**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.

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.

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



**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**6. Debt**

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC (Water Main Replacement)	\$39,801	0%
OPWC (Water Treatment Plant Upgrade)	572,504	0%
OPWC (Water Storage and Bridge Replacement)	7,281	0%
OPWC (Wastewater Treatment Plant)	87,500	0%
Various Purpose Bonds, Series 2004	130,000	2.45 - 4.75%
OWDA	4,306,317	4.65%
Total	<u>\$5,143,403</u>	

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 2040. The Loan is collateralized by the Village's taxing authority.

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

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. 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, 2012 AND 2011  
(Continued)**

**6. Debt (Continued)**

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

Year ending December 31:	OPWC (Water Main Replacement)	OPWC Water Treatment Plant Upgrade)	OPWC (Water Plant)	OPWC (Wastewater Treatment Plant)	Various Purpose Bonds, Series 2004	OWDA
2013	\$2,653	\$26,085	\$7,281	\$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	2,653	26,085		5,000		281,660
2017	2,653	26,085		5,000		281,660
2018-2022	13,265	130,425		25,000		1,408,300
2023-2027	13,271	130,425		25,000		1,408,300
2028-2032		90,888		12,500		1,408,300
2033-2037		64,530				1,408,300
2038-2040		25,811				563,317
Total	<u>\$39,801</u>	<u>\$572,504</u>	<u>\$7,281</u>	<u>\$87,500</u>	<u>\$139,447</u>	<u>\$7,604,817</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 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, 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, 2012.

**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.



# Dave Yost • Auditor of State

## 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, 2012 and 2011, and related notes to the financial statements and have issued our report thereon dated March 15, 2013 wherein we noted the Village followed a special purpose framework the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America, and the Village implemented Governmental Accounting Standards Board Statement No. 54.

### ***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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-002 described in the accompanying schedule of findings to be a significant deficiency.

***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Entity's Response to Findings***

The Village 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

March 15, 2013

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Material Weakness**

**Mayor's Court**

The Village had the following issues regarding the Mayor's Court activity:

- In 2011, the Mayor's Court activity was not recorded in the Mayor's Court Agency Fund. This understated receipts and disbursements by \$70,767 and \$72,682, respectively, resulting in a change in fund balance of \$1,915. These amounts were adjusted to the financial statements.
- In 2012, the 2011 activity for the Mayor's Court was posted to the Mayor's Court Agency Fund, along with the 2012 activity. In addition, the receipts and disbursements were not always posted in the correct month, and the amounts did not always agree to the Mayor's Court records. This overstated receipts, disbursements and cash fund balance by \$88,412, \$83,806 and \$4,606, respectively. These amounts were adjusted to the financial statements.
- In 2012 and 2011, the Mayor's Court receipts and disbursements included accrued amounts not actually received and disbursed. This overstatement was adjusted in the amounts noted above.
- In 2012, the State and City of Mansfield share of the fines and fees was recorded in the Mayor's Court Agency Fund as required, and then paid into the Village's General Fund where they were receipted and disbursed to the two agencies. This overstated the General Fund receipts and disbursements by \$16,671.

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 activity review, and will help ensure more accurate financial statements.

**Officials' Response:** The Village is in the process of correcting these issues.

**FINDING NUMBER 2012-002**

**Significant Deficiency**

**Cash Reconciliations**

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

The December 31, 2012 and 2011 bank reconciliations originally showed the book and bank balances agreed. However, we noted the 2011 initial reconciled book balance did not agree to the December 31, 2011 Statement of Cash Position by \$1,610. Additionally, we noted the Village's system "bank balances" did not always agree to the actual bank statement year-end balances resulting in further initial cash reconciliation variances.

**FINDING NUMBER 2012-002 (Continued)**

Our testing revealed the aforementioned variances related to several improperly included year-end reconciling items, as well as, certain items recorded as adjustments to the Village's prior financial statements which were carried forward as reconciling items and adjustments into 2011. As a result of these items, net cash adjustments for 2012 and 2011 of \$1,005 and (\$2,844), respectively, were posted to the Village's books to enable the Village's book balance to agree with the bank balance.

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

- At December 31, 2012 and 2011, the payroll checking account reconciliation had a book balance of \$1,257 and \$1,247, respectively. This account should have a \$0 book balance as it should be a clearing account.
- The Utilities bank account was not reconciled to the Utilities ledgers during the audit period. A reconciliation should be completed each month between the bank statement and the U/B Receipts Posting Journal to ensure all monies are accounted for.
- The general checking account reconciliation, payroll checking account reconciliation, Utilities reconciliation, and Mayor's Court reconciliations did not have evidence they had been reviewed by a supervisor.

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 is in the process of correcting these issues.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012 AND 2011**

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>
2010-001	<b>Ohio Rev. Code Section 5705.42</b> – In 2010 and 2009, not all of the Ohio Water Development Authority (OWDA) transactions paid to vendors on their behalf were recorded on the Village’s books.	No	Repeated in the Management Letter.
2010-002	<b>Ohio Rev. Code Section 5705.41(D)</b> – The Village had 52 percent of tested transactions not properly certified.	No	Repeated in the Management Letter.
2010-003	<b>Ohio Rev. Code Section 5705.39</b> – The Village had appropriations exceeding estimated resources in several funds at December 31, 2010 and 2009.	Yes	Finding no longer valid.
2010-004	<b>Ohio Rev. Code Section 5705.41(H)</b> – The Village had several funds with negative cash balances at December 31, 2010 and 2009.	Yes	Finding no longer valid.
2010-005	<b>Finding For Recovery – Repaid Under Audit</b> – The Village had incorrectly overpaid an employee for overtime.	Yes	Finding no longer valid.
2010-006	<b>Material Weakness – Transaction Posting</b> – The Village had numerous receipt and disbursement transaction misspostings.	No	Repeated in the Management Letter.
2010-007	<b>Material Weakness – Cash Reconciliations</b> – The Village did not reconcile the books to the bank accurately for 2010 and 2009.	No	Repeated as Finding 2012-002.

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# 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  
APRIL 23, 2013