



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 of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2016 and 2015.

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 opinions.

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

As described in Note 2 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, 2016 and 2015, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Lexington, Richland County, as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017, 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

September 21, 2017

Village of Lexington, Ohio
Richland County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016*

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 227,162	\$ 354,940	\$ 582,102
Municipal Income Tax	1,619,759	-	1,619,759
Intergovernmental	84,143	452,265	536,408
Donations	3,010	33,218	36,228
Charges for Services	307	7,935	8,242
Fines, Licenses and Permits	40,022	-	40,022
Earnings on Investments	4,887	13	4,900
Miscellaneous	35,941	43,253	79,194
<i>Total Cash Receipts</i>	<u>2,015,231</u>	<u>891,624</u>	<u>2,906,855</u>
Cash Disbursements			
Current:			
Security of Persons and Property	979,747	169,816	1,149,563
Public Health Services	-	83,853	83,853
Leisure Time Activities	167,906	67,486	235,392
Community Environment	15,048	1,262	16,310
Transportation	-	550,720	550,720
General Government	498,096	-	498,096
Capital Outlay	36,046	195,752	231,798
Debt Service:			
Principal Retirement	-	31,593	31,593
<i>Total Cash Disbursements</i>	<u>1,696,843</u>	<u>1,100,482</u>	<u>2,797,325</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>318,388</u>	<u>(208,858)</u>	<u>109,530</u>
Other Financing Receipts (Disbursements)			
Transfers In	-	208,000	208,000
Transfers Out	(208,000)	-	(208,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(208,000)</u>	<u>208,000</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	110,388	(858)	109,530
<i>Fund Cash Balances, January 1</i>	<u>742,552</u>	<u>319,371</u>	<u>1,061,923</u>
Fund Cash Balances, December 31			
Restricted	-	318,513	318,513
Assigned	463,259	-	463,259
Unassigned	389,681	-	389,681
<i>Fund Cash Balances, December 31</i>	<u>\$ 852,940</u>	<u>\$ 318,513</u>	<u>\$ 1,171,453</u>

See accompanying notes to the basic financial statements

Village of Lexington, Ohio
Richland County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2016*

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,161,860	\$ -	\$ 1,161,860
Miscellaneous	1,250	3,500	4,750
<i>Total Operating Cash Receipts</i>	<u>1,163,110</u>	<u>3,500</u>	<u>1,166,610</u>
Operating Cash Disbursements			
Personal Services	236,026	-	236,026
Employee Fringe Benefits	7,179	-	7,179
Contractual Services	334,451	-	334,451
Supplies and Materials	141,708	-	141,708
Other	690	3,000	3,690
<i>Total Operating Cash Disbursements</i>	<u>720,054</u>	<u>3,000</u>	<u>723,054</u>
<i>Operating Income (Loss)</i>	<u>443,056</u>	<u>500</u>	<u>443,556</u>
Non-Operating Receipts (Disbursements)			
Capital Outlay	(108,033)	-	(108,033)
Principal Retirement	(128,279)	-	(128,279)
Interest and Other Fiscal Charges	(147,660)	-	(147,660)
Other Financing Sources	-	46,624	46,624
Other Financing Uses	-	(50,867)	(50,867)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(383,972)</u>	<u>(4,243)</u>	<u>(388,215)</u>
<i>Income (Loss) before Transfers</i>	59,084	(3,743)	55,341
Transfers In	283,000	-	283,000
Transfers Out	(283,000)	-	(283,000)
<i>Net Change in Fund Cash Balances</i>	59,084	(3,743)	55,341
<i>Fund Cash Balances, January 1</i>	<u>1,011,245</u>	<u>4,847</u>	<u>1,016,092</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 1,070,329</u>	<u>\$ 1,104</u>	<u>\$ 1,071,433</u>

See accompanying notes to the basic financial statements

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Lexington, Richland County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed 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.

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

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 - The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village had no trust 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 Mayor's Court activity and rental deposit holdings.

Basis of Accounting

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.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or 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.

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.

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 2016 budgetary activity appears in Note 3.

Deposits and Investments

The Village has no investments.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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.

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:

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

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.

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.

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.

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.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,356,261	\$2,015,231	(\$341,030)
Special Revenue	1,499,031	1,099,624	(399,407)
Enterprise	2,078,999	1,446,110	(632,889)
Total	\$5,934,291	\$4,560,965	(\$1,373,326)

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,123,209	\$1,958,101	\$165,108
Special Revenue	1,245,079	1,127,041	118,038
Enterprise	1,595,327	1,438,631	156,696
Total	\$4,963,615	\$4,523,773	\$439,842

Note 4 – Deposits

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:

	2016
Demand deposits	\$1,541,966
Certificates of deposit	700,920
Total deposits	\$2,242,886

Deposits

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

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 5 – Taxes

Property Taxes

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.

Income Taxes

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.

Note 6 - Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Defined Benefit Pension Plans (Continued)

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. The Village's OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC CP12L Wastewater Treatment Improvement	\$67,500	0%
OPWC CP23I Water Main Replacement	\$171,318	0%
OPWC CP20J Water Treatment Plant Upgrade	\$29,183	0%
OPWC CP28J Water Treatment Plant Upgrade	\$296,843	0%
Ohio Water Development Authority Loan 4931	\$3,952,883	5%
Plow Truck Loan	\$90,166	3%
Total	<u>\$4,607,893</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.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 9 – Debt (Continued)

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.

The Plow Truck Loan was entered into in 2015 to finance the purchase of a snow plow. This loan will be repaid in annual installments of \$31,593, with an interest rate of 3% through 2019. The loan is collateralized by the Village’s taxing authority.

Amortization

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

Year ending December 31:	OPWC CP12L (Wastewater Treatment Plan)	OPWC CP20J (Water Treatment Plant Upgrade)	OPWC CP23I (Water Main Replacement)	OPWC CP28J (Water Treatment Plant Upgrade)	OWDA	Plow Truck
2017	\$5,000	\$13,178	\$2,653	\$12,907	\$281,660	\$31,593
2018	5,000	13,178	2,653	12,907	281,660	31,593
2019	5,000	13,178	2,653	12,907	281,660	31,593
2020	5,000	13,178	2,653	12,907	281,660	
2021	5,000	13,178	2,653	12,907	281,660	
2022-2026	25,000	65,894	13,265	64,531	1,408,300	
2027-2031	17,500	39,534	2,653	64,531	1,408,300	
2032-2036	-	-	-	64,530	1,408,300	
2037-2041	-	-	-	38,716	844,980	
Total	<u>\$67,500</u>	<u>\$171,318</u>	<u>\$29,183</u>	<u>\$296,843</u>	<u>\$6,478,180</u>	<u>\$94,779</u>

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Village of Lexington, Ohio
Richland County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015*

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 229,302	\$ 358,273	\$ 587,575
Municipal Income Tax	1,538,840	-	1,538,840
Intergovernmental	89,104	446,911	536,015
Donations	4,353	28,339	32,692
Charges for Services	823	7,923	8,746
Fines, Licenses and Permits	48,358	13,300	61,658
Earnings on Investments	4,402	-	4,402
Miscellaneous	4,987	46,978	51,965
<i>Total Cash Receipts</i>	<u>1,920,169</u>	<u>901,724</u>	<u>2,821,893</u>
Cash Disbursements			
Current:			
Security of Persons and Property	868,482	188,250	1,056,732
Leisure Time Activities	130,144	87,933	218,077
Community Environment	22,689	151,742	174,431
Transportation	-	564,426	564,426
General Government	458,878	-	458,878
Capital Outlay	54,097	151,549	205,646
Debt Service:			
Principal Retirement	-	44,000	44,000
<i>Total Cash Disbursements</i>	<u>1,534,290</u>	<u>1,187,900</u>	<u>2,722,190</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>385,879</u>	<u>(286,176)</u>	<u>99,703</u>
Other Financing Receipts (Disbursements)			
Transfers In	-	192,000	192,000
Transfers Out	(180,000)	(12,000)	(192,000)
<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>	205,879	(106,176)	99,703
<i>Fund Cash Balances, January 1</i>	<u>536,673</u>	<u>425,547</u>	<u>962,220</u>
Fund Cash Balances, December 31			
Restricted	-	319,371	319,371
Assigned	113,857	-	113,857
Unassigned	628,695	-	628,695
<i>Fund Cash Balances, December 31</i>	<u>\$ 742,552</u>	<u>\$ 319,371</u>	<u>\$ 1,061,923</u>

See accompanying notes to the basic financial statements

Village of Lexington, Ohio
Richland County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2015*

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,201,297	\$ -	\$ 1,201,297
Miscellaneous	-	4,000	4,000
<i>Total Operating Cash Receipts</i>	<u>1,201,297</u>	<u>4,000</u>	<u>1,205,297</u>
Operating Cash Disbursements			
Personal Services	342,720	-	342,720
Employee Fringe Benefits	4,851	-	4,851
Contractual Services	296,745	-	296,745
Supplies and Materials	81,806	-	81,806
Other	72	4,200	4,272
<i>Total Operating Cash Disbursements</i>	<u>726,194</u>	<u>4,200</u>	<u>730,394</u>
<i>Operating Income (Loss)</i>	<u>475,103</u>	<u>(200)</u>	<u>474,903</u>
Non-Operating Receipts (Disbursements)			
Sale of Capital Assets	30,000	-	30,000
Capital Outlay	(195,797)	-	(195,797)
Principal Retirement	(121,980)	-	(121,980)
Interest and Other Fiscal Charges	(193,418)	-	(193,418)
Mayor's Court Receipts	-	52,549	52,549
Mayor's Court Disbursements	-	(53,062)	(53,062)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(481,195)</u>	<u>(513)</u>	<u>(481,708)</u>
<i>Income (Loss) before Transfers</i>	(6,092)	(713)	(6,805)
Transfers In	237,332	-	237,332
Transfers Out	(237,332)	-	(237,332)
<i>Net Change in Fund Cash Balances</i>	(6,092)	(713)	(6,805)
<i>Fund Cash Balances, January 1</i>	<u>1,017,337</u>	<u>5,560</u>	<u>1,022,897</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 1,011,245</u>	<u>\$ 4,847</u>	<u>\$ 1,016,092</u>

See accompanying notes to the basic financial statements

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

The Village of Lexington, Richland County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed 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.

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

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 - The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village had no trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund account for Mayor's Court activity and rental deposit holdings.

Basis of Accounting

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.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or 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.

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.

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 2015 budgetary activity appears in Note 3.

Deposits and Investments

The Village has no investments.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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.

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:

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

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.

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.

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.

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.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,819,588	\$1,920,169	\$100,581
Special Revenue	948,484	1,093,724	145,240
Enterprise	1,051,662	1,468,629	416,967
Total	\$3,819,734	\$4,482,522	\$662,788

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,332,261	\$1,740,387	\$591,874
Special Revenue	1,957,331	1,231,546	725,785
Enterprise	2,078,009	1,484,724	593,285
Total	\$6,367,601	\$4,456,657	\$1,910,944

Note 4 – 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:

Demand deposits	2015 \$1,381,211
Certificates of deposit	696,804
Total deposits	\$2,078,015

Deposits

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

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 5 – Taxes

Property Taxes

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.

Income Taxes

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.

Note 6 - Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2015.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 7 - Defined Benefit Pension Plans (Continued)

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For July 1, 2015 to December 31, 2015, OP&F participants contributed 12.25% of their wages. For January 1, 2015 to June 30, 2015, OP&F participants contributed 11.5% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2015.

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC CP12L Wastewater Treatment Improvement	\$72,500	0%
OPWC CP23I Water Main Replacement	\$184,496	0%
OPWC CP20J Water Treatment Plant Upgrade	\$31,841	0%
OPWC CP28J Water Treatment Plant Upgrade	\$309,750	0%
Ohio Water Development Authority Loan 4931	\$4,047,424	5%
Plow Truck Loan	\$118,747	3%
Total	<u>\$4,764,758</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.

Village of Lexington, Ohio
Richland County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 9 – Debt (Continued)

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.

The Plow Truck Loan was entered into in 2015 to finance the purchase of a snow plow. This loan will be repaid in annual installments of \$31,593, with an interest rate of 3% through 2019. The loan is collateralized by the Village’s taxing authority.

Amortization

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

Year ending December 31:	OPWC CP12L (Wastewater Treatment Plan)	OPWC CP20J (Water Treatment Plant Upgrade)	OPWC CP23I (Water Main Replacement)	OPWC CP28J (Water Treatment Plant Upgrade)	OWDA	Plow Truck
2016	\$5,000	\$13,178	\$2,653	\$12,907	\$281,660	\$31,593
2017	5,000	13,178	2,653	12,907	281,660	31,593
2018	5,000	13,178	2,653	12,907	281,660	31,593
2019	5,000	13,178	2,653	12,907	281,660	31,593
2020	5,000	13,178	2,653	12,907	281,660	
2021-2025	25,000	65,894	13,265	64,531	1,408,300	
2026-2030	22,500	52,712	5,311	64,531	1,408,300	
2031-2035				64,530	1,408,300	
2036-2040				51,623	1,126,640	
Total	\$72,500	\$184,496	\$31,841	\$309,750	\$6,759,840	\$126,372

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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 cash balances, receipts, and disbursements by fund type of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated September 21, 2017 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 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 2016-001 through 2016-002 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

September 21, 2017

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Transaction Posting

Material Weakness

Sound financial reporting is the responsibility of the Fiscal Officer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Fiscal Officer did not always accurately post receipts and disbursements to the Village's accounting system and financial statements. In addition, fund balance classifications were not always in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Mispostings identified include the following:

- In 2016 and 2015, Enterprise Funds debt interest was posted as principal payments instead of interest and fiscal charges of \$147,660 and \$193,418, respectively.
- The Village did not post charges for services received in August of 2015 until fiscal year 2016 in the amount of \$185,185.
- In 2015, the General Fund unassigned fund balance was overstated and assigned fund balance was understated by \$523,857, due to subsequent appropriations exceeding subsequent estimated receipts and reserve fund balance were posted as unassigned fund balance.
- In 2015, the Special Revenue Funds unassigned fund balance was overstated and restricted fund balance was understated by \$319,371.
- In 2016, the General Fund unassigned fund balance was overstated and assigned fund balance was understated by \$327,447, due to subsequent appropriations exceeding subsequent estimated receipts and reserve fund balance were posted as unassigned fund balance.

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

Without accurate financial statements, the Council could be making decisions based on inaccurate information.

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

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2016-002

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 2016, \$8,463 of disbursements were adjusted to the agency fund's financial statement and the Village's accounting records to reflect the Mayor's Court Activity. For 2015, \$52,549 of receipts and \$53,062 of disbursements were adjusted to the agency fund's financial statement and the Village's accounting records to reflect the Mayor's Court Activity.

Not recording all of the Mayor's County 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 Mayors Court has been addressed and will be properly recorded in 2016. We realize 2015 would be an issue, based off of the previous audit findings and previous recording practices. These issues should be resolved early in 2016, and carried forward to ensure accurate records. After the first quarter of 2016, the Mayors Court activity was corrected and more accurate recording practices were followed.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Rev. Code § 5705.10(D), Posting Errors	Corrective Action Taken and Finding is Fully Corrected	
2012-002 2014-002	Bank to Book Reconciliation and Appropriate Oversight/ Monitoring. This finding was originally issued in 2008.	Corrective Action Taken and Finding is Fully Corrected	
2012-001 2014-003	Mayor's Court Activity	Partially Corrected	Finding was partially corrected in 2016

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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
NOVEMBER 9, 2017