

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of Lexington, Richland County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 10, 2007

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**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2005 and 2006**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Lexington, Richland County, (the Village) as and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2006. Instead of the combined funds the accompanying financial statements present for 2005 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2006. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2006, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for the encumbrances of the Village of Lexington, Richland County, as of December 31, 2005 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2006. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
July 30, 2007

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
 CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2005

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Other Local taxes	\$ 238,909	\$ 200,673	-	-	\$ 439,582
Municipal Income Taxes	1,370,456	-	-	-	1,370,456
Intergovernmental	141,600	380,893	-	\$ 170,457	692,950
Special Assessments	-	-	\$ 9,530	-	9,530
Charges for Services	7,818	2,364	-	-	10,182
Fines, Licenses, and Permits	39,813	910	-	-	40,723
Investment Income	20,611	641	-	-	21,252
Donations & Contributions	3,124	16,342	-	-	19,466
Miscellaneous	48,195	62,581	3,750	-	114,526
Total Receipts	1,870,526	664,404	13,280	170,457	2,718,667
Cash Disbursements:					
Security of Persons & Property	708,596	173,990	-	-	882,586
General Government	572,587	-	-	-	572,587
Leisure Time Activities	195,632	118,685	-	-	314,317
Transportation	-	606,103	-	-	606,103
Community Environment	19,889	16,212	-	-	36,101
Capital Outlay	4,266	28,724	-	1,395,246	1,428,236
Debt Service:					
Redemption of Principal	-	-	135,000	35,996	170,996
Interest and Other Fiscal Charges	-	-	27,744	-	27,744
Total Disbursements	1,500,970	943,714	162,744	1,431,242	4,038,670
Excess of Receipts Over/(Under) Disbursements	369,556	(279,310)	(149,464)	(1,260,785)	(1,320,003)
Other Financing Sources/(Uses):					
Sale of Fixed Assets	-	2,500	-	-	2,500
Proceeds of OPWC Loans	-	-	-	559,440	559,440
Transfers-In	-	249,359	113,707	172,500	535,566
Transfers-Out	(258,500)	-	-	(859)	(259,359)
Advances-In	47,200	34,200	45,000	105,000	231,400
Advances-Out	(34,200)	(25,700)	(45,000)	(80,250)	(185,150)
Total Other Financing Sources/(Uses)	(245,500)	260,359	113,707	755,831	884,397
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	124,056	(18,951)	(35,757)	(504,954)	(435,606)
Fund Balance January 1, 2005, Restated	295,391	154,895	(78,887)	631,536	1,002,935
Fund Balance December 31, 2005	\$ 419,447	\$ 135,944	\$ (114,644)	\$ 126,582	\$ 567,329

See accompanying Notes to the Financial Statements.

VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
 CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2006

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Cash Receipts:					
Property and Other Local taxes	\$ 257,879	\$ 198,903	-	-	\$ 456,782
Municipal Income Taxes	1,395,915	-	-	-	1,395,915
Intergovernmental	277,997	375,675	-	-	653,672
Special Assessments	-	-	\$ 1,084	-	1,084
Charges for Services	481	3,710	-	-	4,191
Fines, Licenses, and Permits	58,510	1,275	-	-	59,785
Investment Income	30,499	564	-	-	31,063
Donations and Contributions	50	21,334	-	-	21,384
Miscellaneous	13,065	22,850	-	-	35,915
Total Receipts	2,034,396	624,311	1,084	-	2,659,791
Cash Disbursements:					
Security of Persons & Property	786,044	175,624	-	-	961,668
Leisure Time Activities	211,032	157,870	-	-	368,902
Transportation	-	630,825	-	-	630,825
General Government	535,729	-	-	-	535,729
Community Environment	18,931	16,885	-	-	35,816
Capital Outlay	7,821	29,138	-	\$ 700,874	737,833
Debt Service:					
Redemption of Principal	-	10,715	90,000	7,283	107,998
Interest and Other Fiscal Changes	-	-	23,310	-	23,310
Total Disbursements	1,559,557	1,021,057	113,310	708,157	3,402,081
Excess of Receipts Over/(Under) Disbursements	474,839	(396,746)	(112,226)	(708,157)	(742,290)
Other Financing Sources/(Uses):					
Other Financing Sources	459,989	-	-	-	459,989
Sale of Notes	-	35,200	-	-	35,200
Sale of Fixed Assets	5,174	50	-	-	5,224
Proceeds of OPWC Loans	-	-	-	299,940	299,940
Transfers-In	-	371,825	112,000	436,000	919,825
Transfers-Out	(591,825)	-	-	-	(591,825)
Advances-In	-	33,500	-	-	33,500
Advances-Out	(33,500)	-	-	-	(33,500)
Total Other Financing Sources/(Uses)	(160,162)	440,575	112,000	735,940	1,128,353
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	314,677	43,829	(226)	27,783	386,063
Fund Balance January 1, 2006	419,447	135,944	(114,644)	126,582	567,329
Fund Balance December 31, 2006	\$ 734,124	\$ 179,773	\$ (114,870)	\$ 154,365	\$ 953,392
Reserve for Encumbrances, December 31	\$ 4,227	\$ 3,500	\$ -	\$ 1,653	\$ 9,380

See accompanying Notes to the Financial Statements.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
 IN FUND CASH BALANCES - PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
 For the Year Ended December 31, 2005**

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Agency	(Memorandum Only)
Receipts:			
Charges for Services	\$ 849,926	-	\$ 849,926
Fines and Forfeitures	595	-	595
Miscellaneous	1,542	-	1,542
Total Receipts	852,063	-	852,063
Disbursements:			
Personal Services	273,130	-	273,130
Travel Transportation	105,635	-	105,635
Contractual Services	125,194	-	125,194
Materials and Supplies	39,746	-	39,746
Capital Outlay	35,976	-	35,976
Total Disbursements	579,681	-	579,681
Excess Receipts Over/(Under) Disbursements	272,382	-	272,382
Non-Operating Receipts/(Disbursements):			
Fines and Forfeitures	-	\$ 39,813	39,813
Distribution of Fines	-	(39,813)	(39,813)
Total Non-Operating Receipts/(Disbursements)	-	-	-
Excess of Receipts Over/(Under) Disbursements Before Transfers/Advances	272,382	-	272,382
Transfer-Out	(276,207)	-	(276,207)
Advance-In	28,250	-	28,250
Advance-Out	(74,500)	-	(74,500)
Net Receipts Over/(Under) Disbursements	(50,075)	-	(50,075)
Fund Balance January 1, 2005	346,441	-	346,441
Fund Balance December 31, 2005	\$ 296,366	\$ -	\$ 296,366

See accompanying Notes to the Financial Statements.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
 IN FUND CASH BALANCES - PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
 For the Year Ended December 31, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Receipts:			
Charges for Services	\$ 820,973	-	\$ 820,973
Fines and Forfeitures	550	-	550
Miscellaneous	593	-	593
Total Receipts	822,116	-	822,116
Disbursements:			
Personal Services	260,424	-	260,424
Travel Transportation	7,202	-	7,202
Contractual Services	145,314	-	145,314
Material and Supplies	63,255	-	63,255
Capital Outlay	34,898	-	34,898
Refunds	737	-	737
Miscellaneous	6,683	-	6,683
Total Disbursements	518,513	-	518,513
Excess Receipts Over/(Under) Disbursements	303,603	-	303,603
Non-Operating Receipts/(Disbursements)			
Fines and Forfeitures	-	\$ 58,510	58,510
Distribution of Fines	-	(58,510)	(58,510)
Total Non-Operating Receipts/(Disbursements)	-	-	-
Excess of Receipts Over/(Under) Disbursements Before Transfers	303,603	-	303,603
Transfers-Out	(328,000)	-	(328,000)
Net Receipts Over/(Under) Disbursements	(24,397)	-	(24,397)
Fund Balance January 1, 2006	296,366	-	296,366
Fund Balance December 31, 2006	\$ 271,969	\$ -	\$ 271,969
Reserve for Encumbrances, December 31	\$ 704	\$ -	\$ 704

See accompanying Notes to the Financial Statements.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

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

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

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

C. CASH AND INVESTMENTS

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

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING

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

Governmental Fund Types:

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

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

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

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

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

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (Continued)

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

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

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

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

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

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

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

6. Fiduciary Funds (Agency Funds): Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village has the following significant fiduciary fund:

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

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETARY PROCESS

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

1. Estimated Resources

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

2. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2006 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

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

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2005 and 2006**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2005	2006
Demand deposits	\$159,146	\$545,394
Certificate of deposit	526,018	314,224
Total deposits	685,164	\$859,618
STAR Ohio	178,131	365,343
Total Investments	863,295	\$1,224,961
Cash on Hand	400	400
Total Deposits and Investments	\$ 863,695	\$1,225,361

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2005 and 2006 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,914,240	\$1,917,726	\$ 3,486
Special Revenue	974,367	950,463	(23,904)
Debt Service	173,284	171,987	(1,297)
Capital Projects	504,400	1,007,397	502,997
Enterprise	914,276	880,313	(33,963)
Total	\$4,480,567	\$4,927,886	\$ 447,319

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2005 and 2006**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,837,512	\$1,793,670	\$ 43,842
Special Revenue	1,005,484	969,414	36,070
Debt Service	208,082	207,744	338
Capital Projects	997,006	1,512,351	(515,345)
Enterprise	970,038	930,388	39,650
Total	\$5,018,122	\$5,413,567	\$395,445

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,403,707	\$ 2,499,559	\$ 95,852
Special Revenue	1,061,224	\$ 1,064,886	3,662
Debt Service	107,001	113,084	6,083
Capital Projects	776,000	735,940	(40,060)
Enterprise	925,350	822,116	(103,234)
Total	\$ 5,273,282	\$ 5,235,585	\$ (37,697)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,215,251	\$ 2,189,109	\$ 26,142
Special Revenue	1,088,784	1,024,557	64,227
Debt Service	113,310	113,310	0
Capital Projects	427,001	709,810	(282,809)
Enterprise	863,613	847,217	16,396
Total	\$ 4,707,959	\$ 4,884,003	\$ (176,044)

The Village did not properly pass through receipts and disbursements from OPWC loans in 2005 and 2006. As a result, the actual expenditures in capital projects exceeded the appropriation in 2005 and 2006. Also, the Village had appropriations exceed estimated resources in various funds.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

4. PROPERTY TAXES

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

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

Public utilities are also taxed on personal and real property located within the Village.

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

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

5. LOCAL INCOME TAX

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

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, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

6. CAPITAL LEASES

In prior years, the Village entered into various capital leases for equipment used for sewer line projects and for maintenance and repair for Village's road and streets. In 2006, the Village entered into the phone system lease. Future minimum lease payments are as follows:

Year Ended December 31	Case Loader/ Wheel	Bomag Roller	Camera	Leaf Loader	Phone System
2007	\$ 19,888	\$ 2,321	\$ 8,771	\$ 4,458	\$ 8,532
2008	19,888	2,321	8,771	4,458	8,532
2009	-	-	-	-	8,532
2010	-	-	-	-	5,688
Total minimum payments required	\$ 39,776	\$ 4,642	\$ 17,542	\$ 8,916	\$ 31,284
Less: amount representing interest	(5,428)	(594)	(1,233)	(918)	-
Future minimum lease payments	<u>\$ 34,348</u>	<u>\$ 4,048</u>	<u>\$ 16,309</u>	<u>\$ 7,998</u>	<u>\$ 31,284</u>

7. DEBT

Due to incorrect amortization schedule provided by the Village, the debt balance (excluding capital leases) as of December 31, 2004 was overstated by \$18,718. The correct balance was \$949,528. Debt outstanding at December 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note	\$ 35,200	5.78%
OPWC (Water Main Replacement)	109,440	0.00%
OPWC (Water Treatment Plant Upgrade)	749,940	0.00%
OPWC (Steam Corner Road)	53,575	0.00%
OPWC (Water Plant)	101,959	0.00%
Various Purpose Bonds, Series 2004	515,000	Various
Total	<u><u>\$ 1,565,114</u></u>	

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

7. DEBT - (Continued)

- In April 2006, the Village entered a promissory note with Mechanics Saving Bank for equipment in the original amount of \$35,200 with 5.78% interest rate. The annual repayment starts in April 2007.
- The Ohio Public Works Commission Loan (Water Main Replacement) was approved in July 2005 in the original amount of \$109,440 for the purpose of replacing water lines. These bonds are general obligations of the Village and bear no interest.
- The Ohio Public Works Commission Loan (Water Treatment Plant Upgrade) was approved in December 2005 and August 2006 in the original amount of \$450,000 and \$299,940, respectively, for the purpose of upgrading water lines. These bonds are general obligations of the Village and bear no interest.
- The Ohio Public Works Commission Loan (Steam Corner Road) was approved in August 1995 in the original amount of \$214,300 for the purpose of constructing water and sanitary sewer lines. These bonds are general obligations of the Village and bear no interest.
- On July 1, 2002, the Village entered into an agreement with the Ohio Public Works Commission (OPWC) to finance a water tank, pumping system and bridge replacement project. Under the agreement, the Village issued a promissory note payable to the OPWC in the amount of \$145,660. The note is a general obligation of the Village with 0% interest rate and is due in 10 equal annual installments commencing upon completion of the project.
- Various Purpose Bonds, series 2004 were issued in June 2004 in the original amount of \$695,000 for the purpose of making certain improvements to the municipal water system. These bonds are general obligation of the Village and bear interest at a variable rate of 2.25 to 4.75 percent.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

7. DEBT - (Continued)

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

	<u>Promissory Note</u>	<u>OPWC (Water Main Replacement)</u>	<u>OPWC (Water Plant Upgrade)</u>	<u>OPWC (Steam Comer)</u>	<u>OPWC (Water Tower)</u>	<u>Various Purp. Bonds Series 2004</u>
2007	\$ 10,107	\$ 5,472	-	\$ 21,430	\$ 14,566	\$ 115,835
2008	10,107	5,472	\$ 29,996	21,430	14,566	72,748
2009	10,107	5,472	29,996	10,715	14,566	70,823
2010	10,107	5,472	29,996	-	14,566	73,760
2011	-	5,472	29,996	-	14,566	71,360
2012-2016	-	27,360	149,980	-	29,129	208,007
2017-2021	-	27,360	149,980	-	-	-
2022-2026	-	27,360	149,980	-	-	-
2027-2031	-	-	90,016	-	-	-
2032-2036	-	-	75,000	-	-	-
2037	-	-	15,000	-	-	-
Total	<u>\$ 40,428</u>	<u>\$ 109,440</u>	<u>\$ 749,940</u>	<u>\$ 53,575</u>	<u>\$ 101,959</u>	<u>\$ 612,533</u>

8. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages in 2005 and 9.0% in 2006. The Village contributed an equal amount equal to 13.55% in 2005 and 13.70% in 2006 of participants' gross salaries. The Village has paid all contribution required through December 31, 2006.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

9. RISK MANAGEMENT

The Village is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal years 2005 and 2006, the Village contracted with one insurance company for coverage of buildings and contents. The following is a list of insurance coverage of the Village:

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

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

The Village also provides health insurance, life insurance, and disability coverage to full-time employees through a private carrier.

10. TRANSFERS

Transfers were made from general fund to the other funds to provide additional resources for current operation. In 2005, a transfer made from ISTEAFund (capital project fund type) into ISTEAFund (Special revenue fund type) was to close out the unexpended balance in a specific permanent improvement fund into a special fund for the acquisition of permanent improvements. Also, numerous transfers were made from enterprise funds to the capital projects funds for various water/sewer projects. Transfers were also made from enterprise funds to debt service funds to pay for water/sewer debt.

The following is a summary of transfers for all funds for 2005 and 2006:

**VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2006**

10. TRANSFERS - (Continued)

Fund	Year			
	2005		2006	
	Transfer In	Transfer Out	Transfer In	Transfer Out
General Fund	-	\$ 258,500	-	\$ 591,825
Police Levy	-	-	\$ 6,000	-
Street Maint.& Repair	\$ 175,000	-	228,000	-
Permissive Sales	70,000	-	131,500	-
ISTEA	859	-	-	-
Deport Senior Certer	1,500	-	5,125	-
DARE Grant	500	-	200	-
Orchard Park Bond	38,407	-	-	-
Sewer Improvement Bond	47,000	-	26,000	-
Water Improvement Bond	28,300	-	86,000	-
State Issue II	36,000	-	304,000	-
Sewer Improvement	122,000	-	35,000	-
Water Improvement	14,500	-	97,000	-
ISTEA(Capital Project Funds)	-	859	-	-
Sewer Fund	-	197,444	-	61,000
Water Fund	-	78,763	-	267,000
Gifts & Donation	1,500	-	1,000	-
Totals	\$ 535,566	\$ 535,566	\$ 919,825	\$ 919,825

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY, OHIO
 Notes to the Financial Statements
 For the Years Ended December 31, 2005 and 2006**

11. INTERFUND LOANS

Interfund loan payments in 2005 and 2006 consist of the following individual fund short term loans due to unavailable resources at the time or paybacks of loans.

Fund	Year			
	2005		2006	
	Advance In	Advance Out	Advance In	Advance Out
General Fund	\$ 47,200	\$ 34,200		\$ 33,500
Police Levy			\$ 32,000	
Permissive Sales	33,500	25,000		
Depot Senior Center	700	700		
Gifts & Donation			1,500	
Water Improvement Bond	45,000	45,000		
State Issue II	105,000	80,250		
Sewer Improvement	28,250			
Water Fund		60,000		
Storm Water		14,500		
Totals	\$ 259,650	\$ 259,650	\$ 33,500	\$ 33,500

12. SUBSEQUENT EVENTS/PENDING LITIGATION

In May 2007, the Village entered an operating lease for a new wheel loader with costs totaling \$92,321. The lease payment starts in 2008.

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

13. PRIOR YEAR ADJUSTMENT

The Village previously reported the proceeds of general obligation bond for a construction project issued in 2004 into the debt service fund. However, a portion of the proceeds should have been recorded in the capital projects fund. The resultant change in the fund balances is as follows:

	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>
December 31, 2004 Fund Balance, as previously reported	\$ 496,113	\$ 56,536
Prior Period Adjustment	(575,000)	575,000
January 1, 2005 Fund Balance, as restated	\$ (78,887)	\$ 631,536

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Village Council:

We have audited the financial statements of the Village of Lexington, Richland County, Ohio (the Village) as of and for the years ended December 31, 2005 and 2006 and have issued our report thereon dated July 30, 2007, wherein we noted the Village followed accounting practices prescribed or permitted by the Auditor of State of Ohio. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying Schedule of Findings, items 2006-LEX-001 through 003 and 2006-LEX-005 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-LEX-001 through 2006-LEX-005.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We noted certain matters that we have reported to management of the Village in a separate letter dated July 30, 2007.

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

Charles E. Harris and Associates, Inc.
July 30, 2007

**VILLAGE OF LEXINGTON
RICHLAND COUNTY
Schedule of Findings
December 31, 2005 and 2006**

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

Finding Number 2006-LEX-001 – Noncompliance and Material Weakness

Appropriations and Estimated Resources

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances in 2005 and 2006.

<u>2005</u>	Estimated Resources	Appropriations	Variance
Debt Service Fund:			
Water Improvement Bond Fund	\$ (145,452)	\$ 127,997	\$ (273,449)
Sewer Improvement Bond Fund	8,144	32,686	(24,542)
Capital Project Fund:			
State Issue II	503,879	506,890	(3,011)
 <u>2006</u>			
Special Revenue Funds:			
Police Levy	\$ 199,147	\$ 205,810	\$ (6,663)
Street Maintenance	450,065	476,194	(26,129)
Depot Senior Center	52,898	57,723	(4,825)
Debt Service Fund:			
Orchard Park Road	585	1,622	(1,037)
Water Improvement Bond Fund	(113,479)	85,162	(198,641)
Sewer Improvement Bond Fund	21,629	26,526	(4,897)

We recommend that the Village closely monitor its budgetary activities throughout the year.

The variance in the debt service fund is the result of a correction recommended in the 2007 audit. It has already been corrected. The remaining variances do not indicate that the Village actually spent more than it had appropriated, but only that it failed to obtain an amended Certificate of Estimated Resources from the Richland County Auditor. Management agrees this was an oversight and we will follow the appropriate procedures in the future.

**VILLAGE OF LEXINGTON
 RICHLAND COUNTY
 Schedule of Findings – (continued)
 December 31, 2005 and 2006**

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

Finding Number 2006-LEX-002 – Noncompliance and Material Weakness

Expenditures Limited by Appropriations

Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

During our audit, we noted the following funds that have total expenditures and contract commitments exceeding appropriations. Per further inquiry of administrative director, we noted that the Village adversely recorded expenditures for water/sewer improvement projects into water/sewer improvement bond funds. In addition, the Village did not properly pass through cash receipts and cash disbursements from OPWC loans. As a result, the actual expenditures in capital project exceeded the appropriations in 2005 and 2006.

Funds	Total Appropriations	Total Expenditures	Variances
2005			
Capital Project Funds			
Water Improvement Fund	\$ 205,164	\$ 747,542	\$ (542,378)
2006			
Capital Project Funds			
Water Improvement Fund	87,500	379,311	(291,811)

We recommend that the Village properly record and include all activities during the year and take necessary action to not exceed appropriations.

The Village agrees that it had posted expenditures for water and sewer capital projects as well as cash disbursements from OPWC. The Village will properly record all similar expenses and receipts in the future.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY
Schedule of Findings – (continued)
December 31, 2005 and 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2006-LEX-003 – Noncompliance and Material Weakness

Timely File Complete and Accurate Cash Basis Reports

Ohio Rev. Code Section 117.38 states that Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. Also, the report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and (D) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

During our audit, we noted that the 2006 cash basis annual reports were not filed within 60 days. In addition, the receipts and amounts due from each source and expenditures for each purpose and income of any public service industry that the entity owns or operates as well as the costs of ownership or operation presented on annual reports contained significant variances compared to the Village accounting records: cash and cash equivalent was understated by \$47,583 and it is out of balance; cash receipts for general fund, street maintenance & repair fund, other governmental funds, sewer fund, water fund and sewer utility fund were understated by \$44,786, \$263,250, \$169,064, \$146,922, \$81,895 and \$43,150 respectively. Also, the debt schedule attached to 2005 annual report was incorrect and 2006 debt schedule was not presented in 2006 annual reports.

We recommend that the Village prepare the complete and accurate reports and file the reports within 60 days.

The delay in the filing of the 2006 cash report with the Auditor of State of Ohio was due to the resignation, in late December 2006, of the Assistant Finance Director and the hiring of and transition to a new Assistant Finance Director. This unfortunate and untimely event should not be repeated.

Finding Number 2006-LEX-004 - Noncompliance

Negative Fund Balances

Ohio Revised Code Section 5705.10 states, in part, proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code section 133.01, except premium and accrued interest, are to be paid into a special fund for the purpose of such issue. Money paid into a fund must be used only for the purposes for which such fund has been established.

**VILLAGE OF LEXINGTON
RICHLAND COUNTY
Schedule of Findings – (continued)
December 31, 2005 and 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2006-LEX-004 - (Continued)

We noted that the Village incorrectly recorded certain proceeds from the sale of general obligation bond into the debt service fund in a previous year. A portion of the debt proceeds should have been recorded into the capital project funds for water and sewer improvement projects. After correction made in 2005, there was a significant negative balance in 2005 in debt service fund that is carried over to 2006.

We recommend the Village properly record proceeds from the sale of public obligations and take necessary action to recover the negative fund balance.

Management agrees and has adjusted fund balances to reflect proper results of transactions.

Finding Number 2006-LEX-005 – Noncompliance and Material Weakness

Ohio Administrative Code Section 117-2-02(A) requires all local public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

In 2004, the Village recorded a debt issue entirely in the debt service funds whereby, a portion should have been recorded in the capital projects fund for various water and sewer projects. This caused a material restatement of the beginning 2005 fund balance by \$575,000. We recommend the Village take due care in recording all future transactions to ensure all receipts and disbursements are recorded properly.

Also, there were several audit adjustments that had to be made related to capital projects being paid from debt service funds rather than capital projects. All the above adjustments have been made to the financial statements.

These errors were not discovered until the audit in 2007. The Village agrees with this finding and has already taken steps to correct these errors.

VILLAGE OF LEXINGTON
RICHLAND COUNTY, OHIO
For the Years Ended December 31, 2005 and 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit, for the 2 years ended December 31, 2004, reported no material citations or recommendations.



Mary Taylor, CPA
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
DECEMBER 20, 2007**