



**Auditor of State  
Betty Montgomery**



VILLAGE OF LEXINGTON  
RICHLAND COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2002.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary and Similar Fiduciary Fund Types For the Year Ended December 31, 2002.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2001.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary and Similar Fiduciary Fund Types For the Year Ended December 31, 2001.....	6
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	15
Schedule of Findings.....	17

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 20, 2003

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$1,465,791	\$103,623			\$1,569,414
Special Assessments		861	\$11,597		12,458
Intergovernmental Receipts	147,670	238,095		\$203,603	589,368
Charges for Services	1,805	2,797			4,602
Fines, Licenses, and Permits	44,204	652			44,856
Earnings on Investments	46,195	1,726			47,921
Donations		29,565			29,565
Miscellaneous	62,493	4,488			66,981
<b>Total Cash Receipts</b>	<u>1,768,158</u>	<u>381,807</u>	<u>11,597</u>	<u>203,603</u>	<u>2,365,165</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	1,045,379	54,113			1,099,492
Leisure Time Activities	194,091	39,250			233,341
Community Environment	30,189				30,189
Transportation		322,260			322,260
General Government	215,690	67,097			282,787
Debt Service:					
Principal Payments			75,000	21,430	96,430
Interest Payments			21,863		21,863
Capital Outlay		249,148		649,715	898,863
<b>Total Cash Disbursements</b>	<u>1,485,349</u>	<u>731,868</u>	<u>96,863</u>	<u>671,145</u>	<u>2,985,225</u>
Total Receipts Over/(Under) Disbursements	<u>282,809</u>	<u>(350,061)</u>	<u>(85,266)</u>	<u>(467,542)</u>	<u>(620,060)</u>
<b>Other Financing Receipts and (Disbursements):</b>					
Sale of Fixed Assets	100	8,000			8,100
Note Proceeds				32,166	32,166
Proceeds from repayment of internal notes	36,400				36,400
Transfers-In		310,000	98,500	399,200	807,700
Advances-In	15,500	15,500			31,000
Transfers-Out	(520,000)				(520,000)
Advances-Out	(15,500)	(15,500)			(31,000)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(483,500)</u>	<u>318,000</u>	<u>98,500</u>	<u>431,366</u>	<u>364,366</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(200,691)	(32,061)	13,234	(36,176)	(255,694)
Fund Cash Balances, January 1	<u>735,896</u>	<u>194,264</u>	<u>658</u>	<u>88,621</u>	<u>1,019,439</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$535,205</b></u>	<u><b>\$162,203</b></u>	<u><b>\$13,892</b></u>	<u><b>\$52,445</b></u>	<u><b>\$763,745</b></u>
Reserves for Encumbrances, December 31	<u>\$3,220</u>	<u>\$8,927</u>	<u>\$0</u>	<u>\$44,049</u>	<u>\$56,196</u>

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

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$635,789		\$635,789
Fines and costs		\$4,085	4,085
Miscellaneous	2,727	71	2,798
	<u>638,516</u>	<u>4,156</u>	<u>642,672</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	190,373		190,373
Transportation	2,348		2,348
General Government		84	84
Contractual Services	124,912		124,912
Supplies and Materials	62,248		62,248
Capital Outlay	67,714		67,714
	<u>447,595</u>	<u>84</u>	<u>447,679</u>
Operating Income	<u>190,921</u>	<u>4,072</u>	<u>194,993</u>
<b>Non-Operating Cash Receipts (Disbursements):</b>			
Sale of fixed assets	12,000		12,000
Debt Service			
Principal - Internal Debt	(36,400)		(36,400)
Interest - Internal Debt	(4,600)		(4,600)
Other Non-Operating Cash Disbursements		(3,150)	(3,150)
	<u>(29,000)</u>	<u>(3,150)</u>	<u>(32,150)</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	161,921	922	162,843
Transfers-Out	<u>(287,700)</u>		<u>(287,700)</u>
Net Receipts Over/(Under) Disbursements	(125,779)	922	(124,857)
Fund Cash Balances, January 1	<u>378,726</u>	<u>3,164</u>	<u>381,890</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$252,947</u></b>	<b><u>\$4,086</u></b>	<b><u>\$257,033</u></b>
Reserve for Encumbrances, December 31	<u>\$329</u>	<u>\$0</u>	<u>\$329</u>

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



**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$1,493,625	\$107,572			\$1,601,197
Special Assessments		7,087	\$7,037		14,124
Intergovernmental Receipts	263,281	241,982		\$18,087	523,350
Charges for Services	1,757				1,757
Fines, Licenses, and Permits	48,668				48,668
Earnings on Investments	81,392	3,161			84,553
Donations		3,786			3,786
Miscellaneous	8,580	15,095			23,675
<b>Total Cash Receipts</b>	<u>1,897,303</u>	<u>378,683</u>	<u>7,037</u>	<u>18,087</u>	<u>2,301,110</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	673,184	53,281			726,465
Leisure Time Activities	190,007	75,273			265,280
Community Environment	22,627	4,500			27,127
Transportation		555,028			555,028
General Government	572,951	2,124			575,075
Debt Service:					
Principal Payments			120,000	21,430	141,430
Interest Payments			29,048		29,048
Capital Outlay		3,702		100,816	104,518
<b>Total Cash Disbursements</b>	<u>1,458,769</u>	<u>693,908</u>	<u>149,048</u>	<u>122,246</u>	<u>2,423,971</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>438,534</u>	<u>(315,225)</u>	<u>(142,011)</u>	<u>(104,159)</u>	<u>(122,861)</u>
<b>Other Financing Receipts and (Disbursements):</b>					
Sale of fixed assets	7,889				7,889
Proceeds from repayment of internal notes	18,200				18,200
Transfers-In		375,000	126,275	112,400	613,675
Advances-In		11,000			11,000
Transfers-Out	(437,525)				(437,525)
Advances-Out	(11,000)				(11,000)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(422,436)</u>	<u>386,000</u>	<u>126,275</u>	<u>112,400</u>	<u>202,239</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	16,098	70,775	(15,736)	8,241	79,378
<b>Fund Cash Balances, January 1</b>	<u>719,798</u>	<u>123,489</u>	<u>16,394</u>	<u>80,380</u>	<u>940,061</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$735,896</b></u>	<u><b>\$194,264</b></u>	<u><b>\$658</b></u>	<u><b>\$88,621</b></u>	<u><b>\$1,019,439</b></u>
<b>Reserves for Encumbrances, December 31</b>	<u>\$1,325</u>	<u>\$5,530</u>	<u>\$0</u>	<u>\$10</u>	<u>\$6,865</u>

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

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$616,521		\$616,521
Fines and costs		\$3,150	3,150
Total Operating Cash Receipts	<u>616,521</u>	<u>3,150</u>	<u>619,671</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	181,839		181,839
Transportation	2,686		2,686
Contractual Services	97,264		97,264
Supplies and Materials	52,458		52,458
Refunds	6,180		6,180
Capital Outlay	41,983		41,983
Total Operating Cash Disbursements	<u>382,410</u>		<u>382,410</u>
Operating Income	<u>234,111</u>	<u>3,150</u>	<u>237,261</u>
<b>Non-Operating Cash Receipts (Cash Disbursements):</b>			
Sale of fixed assets	6,850		6,850
Debt Service			
Principal - Internal Debt	(18,200)		(18,200)
Interest - Internal Debt	(2,300)		(2,300)
Other Non-Operating Cash Disbursements		(3,141)	(3,141)
Total Non-Operating Cash Receipts and Cash Disbursements	<u>(13,650)</u>	<u>(3,141)</u>	<u>(16,791)</u>
Excess of Cash Receipts Over Cash Disbursements Before Interfund Transfers	220,461	9	220,470
Transfers-Out	<u>(176,150)</u>		<u>(176,150)</u>
Net Receipts Over/(Under) Disbursements	44,311	9	44,320
Fund Cash Balances, January 1	<u>334,415</u>	<u>3,155</u>	<u>337,570</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$378,726</u></b>	<b><u>\$3,164</u></b>	<b><u>\$381,890</u></b>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Lexington, Richland County, Ohio, (the Village) is a body corporate and politic established to exercise 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 believes these financial statements present all activities for which the Village is financially accountable.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of 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).

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

**C. Cash and Investments**

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

Certificates of deposit are valued at cost. STAR Ohio is recorded at share values reported by the State Treasurer.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure 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.

VILLAGE OF LEXINGTON  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

*Parks and Recreation Fund* -This fund receives general and tangible personal property tax money for the operation 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 three debt service funds of which the following are significant:

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

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

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 project 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 lines.

*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 private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered 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.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**6. Fiduciary Funds (Trust and Agency Funds)**

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

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

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2002	2001
Deposits:		
Demand deposits	\$28,041	\$47,106
Certificates of deposit	988,248	963,261
Total deposits	1,016,289	1,010,367
Investment:		
STAR Ohio	4,489	390,962
Total deposits and investments	\$1,020,778	\$1,401,329

**Deposits:** Deposits are either insured by pledged collateral of the financial institution at which deposits are held.

**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, 2002 and 2001, follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$496,241	\$1,820,158	\$1,323,917
Special Revenue	583,431	715,307	131,876
Debt Service	107,449	110,097	2,648
Capital Projects	550,000	634,969	84,969
Enterprise	659,000	650,516	(8,484)
Total	\$2,396,121	\$3,931,047	\$1,534,926

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,070,527	\$2,024,069	\$46,458
Special Revenue	794,095	756,295	37,800
Debt Service	98,200	96,863	1,337
Capital Projects	748,440	715,194	33,246
Enterprise	782,786	776,624	6,162
Total	<u>\$4,494,048</u>	<u>\$4,369,045</u>	<u>\$125,003</u>

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,813,350	\$1,923,392	\$110,042
Special Revenue	738,867	764,683	25,816
Debt Service	166,075	133,312	(32,763)
Capital Projects	237,930	130,487	(107,443)
Enterprise	604,500	623,371	18,871
Total	<u>\$3,560,722</u>	<u>\$3,575,245</u>	<u>\$14,523</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,989,750	\$1,908,619	\$81,131
Special Revenue	806,931	699,438	107,493
Debt Service	151,988	149,048	2,940
Capital Projects	291,211	122,256	168,955
Enterprise	751,511	579,060	172,451
Total	<u>\$3,991,391</u>	<u>\$3,458,421</u>	<u>\$532,970</u>

Contrary to Ohio Rev. Code 5705.39 total appropriations exceed estimated (but not actual) resources in certain funds at December 31, 2002 and 2001.

Contrary to Ohio Rev. Section 5705.41 (D) and Section 9.02 (D) of the Charter of the Municipality of Lexington certain expenditures of the Village were made without advance certification of the Fiscal Officer.

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

**5. LOCAL INCOME TAX**

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

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

**6. DEBT**

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Internal Notes - Water Project	\$54,600	5.00%
Water System Improvement Bonds	190,000	variable
Orchard Park Road Improvement Bonds	130,000	5.35%
Ohio Public Works Commission Loan - (Steam Corners Road)	128,580	0.00%
Ohio Public Works Commission Note - (Water & Storage Bridge Replacement)	<u>32,166</u>	0.00%
Total	<u><u>\$535,346</u></u>	



**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**6. DEBT (Continued)**

- The internal notes were sold by the Village's Water Enterprise Fund to the Village's General Fund during April 1998 in the original amount of \$182,000 for the purpose of constructing a water main. During 2002 and 2001, the Water Fund paid \$36,400 and \$18,200 principal, and \$4,600 and \$2,300 interest, respectively, to the General Fund for retirement of these notes. These payments are reflected on the financial statements as Debt Service expenses in the Enterprise Fund Type and as Interest revenue and Other Financing Sources - Proceeds for repayment of internal notes in the General Fund.
- The Water System Improvement Bonds were issued in June 1992 in the original amount of \$500,000 for the purpose of making certain improvements to the municipal water system. These bonds are general obligations of the Village and bear interest at a variable rate of 3.5 to 6.3 percent.
- The Orchard Park Road Improvement Bonds were issued in September 1995 in the original amount of \$355,000, in anticipation of the collection of special assessments levied against property owners for the purpose of constructing water and sanitary sewer lines. These bonds are general obligations of the Village and bear interest at a rate of 5.35%.
- The Ohio Public Works Commission Loan was approved in August 1995 in the original amount of \$214,300 for the purpose of the reconstruction of Steam Corners Road. This loan is a general obligation of the Village and bears 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 \$203,602 representing 50% of the project costs with the other 50% being provided through a grant from the OPWC. As December 31, 2001, \$32,166 of the \$203,602 note has been disbursed by the OPWC to the Village. The Note is a general obligation of the Village with a 0% interest rate and is due in 10 equal annual installments commencing upon completion of the project.

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

	Internal Notes Water Project	Water System Improvement Bonds	Orchard Park Road Improvement Bonds	Ohio Public Works Commission Loan (Steam Corners Road)
Year ending December 31:				
2003	\$41,000	\$46,735	\$46,955	\$21,430
2004	20,500	44,635	49,515	21,430
2005		47,500	47,407	21,430
2006		45,020		21,430
2007		42,520		21,430
2008				21,430
<b>Total</b>	<b>\$61,500</b>	<b>\$226,410</b>	<b>\$143,877</b>	<b>\$128,580</b>

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

**7. RETIREMENT SYSTEMS**

The Village's full-time law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public 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 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

**8. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance to its full-time employees through a private carrier. Under the Village's plan, the Village pays a deductible for the first \$15,000 of claims for each employee in addition a monthly premium.

**9. CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**10. PRIOR PERIOD ADJUSTMENT**

The Village previously reported the activity of its Cable TV Fund, Gifts and Donations Fund and Unclaimed Monies funds as Expendable Trust Funds. The activity of the Cable TV Fund and Gifts and Donations Fund should have been reported as Special Revenue Funds and the Unclaimed Monies Fund as an Agency Fund. The correction of this error had the following effect on previously reported fund balances.

	Special Revenue Fund Type	Expendable Trust Fund Type	Agency Fund Type
December 31, 2000 Fund Balances, as previously reported	\$117,332	\$6,171	\$3,141
Prior Period Adjustment	6,157	(6,171)	14
January 1, 2001 Fund Balances, as restated	<u>\$123,489</u>	<u>\$0</u>	<u>\$3,155</u>



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Lexington, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 20, 2003. 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.

**Compliance**

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 and grants, 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 20, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 20, 2003.

Village of Lexington  
Richland County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 20, 2003

**VILLAGE OF LEXINGTON  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2002-001**

**Noncompliance Citation:**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon. Further, **Section 9.02 (D) of the Charter of the Municipality of Lexington** requires no contract, agreement or other contractual obligation involving the expenditure of money shall be entered into or authorized by the appropriate contracting officer unless the Finance Director, Mayor, or their duly authorized representative shall first certify:

- That the money required for such contract, agreement, obligation or expenditure is in the municipality's treasury or in the process of collection, and
- That the money has been appropriated by Council for the specified purpose, and it remains unencumbered.

Said certification as to the availability of funds and the appropriation of funds shall be filed and recorded in the accounting records of the municipality and a copy furnished the vendor or contractor. Without the certification, contractual obligations shall be void and unenforceable against the municipality unless recognized by Council as a moral obligation.

During 2002 and 2001, 73 of 80 expenditures tested (91%) were not certified by the fiscal officer prior to incurring the obligation. The Village Fiscal Officer should certify the availability of funds prior to incurring the obligations. In addition, the Charter directly contradicts Ohio Rev. Code Section 5705.41 (D), by allowing individuals other than the Fiscal Officer to make such certification. The Village should revise its Charter so as not to be in direct conflict with the Ohio Revised Code which allows only the Fiscal Officer to certify the availability of funds for expenditure.

**FINDING NUMBER 2002-002**

**Noncompliance Citation:**

**Ohio Rev. Code Section 5705.39** requires that total appropriations from each fund not exceed total estimated fund resources from each fund. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

**FINDING NUMBER 2002-002**  
**(Continued)**

At December 31, 2002 and 2001 total appropriations exceeded total estimated resources at year end as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
December 31, 2002:			
General Fund	\$1,267,967	\$2,070,527	\$802,560
Permissive Sales Tax	67,997	171,970	103,973
Water Fund	408,073	452,607	44,534
December 31, 2001:			
Street Construction Maintenance and Repair	389,341	395,586	6,245

In addition, the Village did not always obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments. Village Council should monitor appropriations versus estimated resources to help avoid overspending, and the Finance Director should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
JULY 22, 2003**