

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Lexington, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Lexington, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the City of Lexington's basic financial statements, and have issued our report thereon dated October 9, 2009. We did not audit the financial statements of the City of Lexington ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and, our opinion, insofar as it relates to the amounts included for the City of Lexington ABC Board, is based solely on the reports of the other auditors. 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. The financial statements of the City of Lexington ABC Board and the Tourism Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lexington'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 City of Lexington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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 City's internal control.

Our consideration of the 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 over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lexington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, others within the organization, members of the Lexington City Council, and federal and State awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Martin Starnes & Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
October 9, 2009

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Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 And The State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Lexington, North Carolina

Compliance

We have audited the compliance of the City of Lexington, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2009. The City of Lexington's major State programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings, Responses, and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major State program is the responsibility of the City of Lexington's management. Our responsibility is to express an opinion on the City of Lexington's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lexington's compliance with those requirements.

In our opinion, the City of Lexington complied, in all material respects, with the requirements referred to above that are applicable to the major State programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Lexington is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Lexington's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a State program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended for the information and use of management, others within the organization, members of the Lexington City Council, and federal and State awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Martin Starnes + Associates CPAs, P.A.

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October 9, 2009

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Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Lexington, North Carolina

Compliance

We have audited the compliance of the City of Lexington, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 2009. The City of Lexington's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings, Responses, and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of the City of Lexington's management. Our responsibility is to express an opinion on the City of Lexington's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lexington's compliance with those requirements.

In our opinion, the City of Lexington complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Lexington is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lexington's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended for the information and use of management, others within the organization, members of the Lexington City Council, and federal and State awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Martin Starnes + Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 9, 2009

CITY OF LEXINGTON, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

1. Summary of Auditors' Results

- A. An unqualified opinion was issued on the financial statements of the City of Lexington, North Carolina.
- B. Our audit of the basic financial statements disclosed no significant deficiencies in internal control.
- C. Our audit of the basic financial statements disclosed no instances of non-compliance with laws, regulations and the provisions of contracts and grant agreements that are material to the basic financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the City's major programs disclosed no material weaknesses in internal controls over major programs.
- E. Our audit disclosed no audit findings which related to federal or State awards.
- F. An unqualified opinion was issued on the City of Lexington's compliance with the types of compliance requirements applicable to its major federal and State programs.
- G. The major federal program for the City of Lexington for the year ended June 30, 2009 was:

Community Revitalization CFDA #14.228
- H. The major State program for the City of Lexington for the year ended June 30, 2009 was:

Powell Bill
- I. The threshold for determining Type A programs for the City of Lexington was \$300,000.
- J. The City of Lexington did not qualify as a low risk auditee under Section 530 of Circular No. A-133.

2. Findings Related to the Audit of the Basic Financial Statements

The audit did not detect any findings as it relates to the basic financial statements.

3. Findings and Questioned Costs Related to the Audit of Federal and State Awards

The audit did not detect any findings or questioned costs as it relates to federal and State awards.

N/A – there were no prior year findings.

City of Lexington, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2009

Federal Grantor/Passed Through Grantor/Program Title	Federal CFDA Number	Federal (Direct and Passed Through) Expenditures	State Expenditures
Federal Grants			
Department of Homeland Security Assistance to Firefighters	97.044	\$ 79,741	\$ -
Department of Commerce Division of Community Assistance			
Scattered Site Housing	14.228	13,417	-
Community Revitalization	14.228	490,129	-
Infrastructure Hook-Up	14.228	75,000	-
Capacity Building Program	14.228	57,523	-
NC Department of Transportation NC Governor's Highway Safety Program			
Occupant Protection	20.602	7,359	-
Safety Initiatives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	6,810	-
State Grants			
NC Department of Environment and Natural Resources Division of Pollution Prevention and Environmental Assistance			
Solid Waste Reduction and Recycling Outreach	N/A	-	659
NC Department of Crime Control and Public Safety Division of Governor's Crime Commission			
Gang Violence Prevention Grant	N/A	-	43,995
NC Department of Agriculture and Consumer Services NC Tobacco Trust Fund	N/A	-	9,559
NC Department of Transportation Powell Bill	N/A	-	683,769
Total Federal Grants		<u>\$ 729,979</u>	
Total State Grants			<u>\$ 737,982</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of City of Lexington and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.