

CITY OF NEW LEXINGTON
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



**Auditor of State
Betty Montgomery**

Members of Council
City of New Lexington
125 S. Main Street
New Lexington, Ohio 43764

We have reviewed the *Independent Auditors' Report* of the City of New Lexington, Perry County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2005, through December 31, 2005. 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.

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 City of New Lexington is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 3, 2006

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**CITY OF NEW LEXINGTON
PERRY COUNTY**

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of New Lexington
New Lexington, Ohio 43764

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington, Perry County as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, net assets, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position -modified cash basis of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington, Perry County as of December 31, 2005, and the respective changes in financial position-modified cash basis and the respective budgetary comparison for the General Fund and Fire and EMS Fund for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 2006, on our consideration of City of New Lexington's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 9, 2006

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

The management's discussion and analysis of the City of New Lexington's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005, within the limitation of the City's cash basis of accounting. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The total net assets of the City decreased \$1,797. Net assets of governmental activities decreased \$89,251 or 21% from 2004 and net assets of business-type activities increased \$87,454 or 15% from 2004.
- General cash receipts accounted for \$985,084 or 51% of total governmental activities cash receipts. Program specific cash receipts accounted for \$932,813 or 49% of total governmental activities cash receipts. Total governmental activities cash receipts for 2005 were \$1,917,897.
- The City had \$2,007,148 in cash disbursements related to governmental activities; \$932,813 of these cash disbursements was offset by program specific charges for services, grants or contributions. The remaining cash disbursements of the governmental activities of \$1,074,335 were offset by general cash receipts (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$985,084.
- The City's major governmental funds are the General fund and the Special Revenue Fire and EMS fund. The general fund had cash receipts of \$1,198,641 and cash disbursements and other financing uses of \$1,125,842. The net increase in fund balance for the general fund was \$72,799 or 109%.
- The Fire & EMS fund had cash receipts of \$446,357 and cash disbursements of \$645,919. The net decrease in fund balance was \$199,562 or 63%.
- The Water Fund had cash receipts \$1,244,100 and cash disbursements of \$1,147,713 in 2005. The net change in net assets was \$96,387 or 28%.
- The Sewer Fund had cash receipts of \$831,801 and cash disbursements of \$840,734 in 2005. The net change in net assets was \$(8,933) or (4%).

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

Using the Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's cash basis of accounting.

The Statement of Net Assets – Modified Cash Basis and Statement of Activities- Modified Cash Basis provide information about the activities of the City as a whole, presenting both an aggregate view of the City's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Since the City uses the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded on these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

A general question typically asked about the City's finances is "How did we do financially during 2005?" The Statement of Net Assets-Modified Cash Basis and the Statement of Activities-Modified Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

These two statements report the City's net assets and changes in those assets on a modified cash basis. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the Statement of Net Assets-Modified Cash Basis and the Statement of Activities-Modified Cash Basis, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water and sewer operations are reported here.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses many funds to account for financial transactions and has segregated these funds into major and nonmajor funds. Information for major funds is presented separately in the governmental fund financial statements while all other governmental funds are combined into a single, aggregated presentation. The City's major governmental funds are the General and Special Revenue Fire & EMS funds.

Governmental Funds

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. For the City, these funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Since the City is reporting on the modified cash basis of accounting, there are no differences between net assets and fund balances or changes in net assets and changes in fund balances. Therefore, no such reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross cash receipts and cash disbursements on the Fund Financial Statements to the Statement of Activities – Modified Cash Basis, which is attributed to transfers between governmental and proprietary funds being eliminated for reporting in the Statement of Activities – Modified Cash Basis.

The City's budgetary process accounts for certain transactions on the cash basis. The budgetary statements for the General fund and the Fire & EMS fund are presented to demonstrate the City's compliance with annually adopted budgets. Differences arising between the changes in fund balances presented on the fund financial statements and fund balances on the budgetary statements are attributed to outstanding encumbrances at year end.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer functions. The City's major enterprise funds are the water and sewer funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City's only fiduciary fund is an agency fund which is used to account for the retainage for contracts with vendors. Only the cash held at year end for agency funds is presented.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

The City of New Lexington as a Whole

Recall that the Statement of Net Assets – Modified Cash Basis provides the perspective of the City as a whole.

The table below provides a summary of the City’s net assets for 2005. Since this is the first year the City has elected to present its cash basis financial statements in a format similar to the requirements of GASB Statement No. 34, comparative statements to 2004 have not been presented. However, a comparison will be presented for future years:

	Net Assets		
	Governmental Activities 2005	Business-type Activities 2005	2005 Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 340,694	\$ 665,224	\$ 1,005,918
Total assets	<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>
<u>Net Assets</u>			
Restricted	243,327	-	243,327
Unrestricted	<u>97,367</u>	<u>665,224</u>	<u>762,591</u>
Total net assets	<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>

The total net assets of the City decreased by \$1,797. Net assets of governmental activities decreased \$89,251 or 21 % from 2004 and net assets of business-type activities increased \$87,454 or 15% from 2004.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

The table below provides a summary of changes in the City's net assets for 2005. Since this is the first year the City has elected to present its cash basis financial statements in a format similar to the requirements of GASB Statement No. 34, comparative statements to 2004 have not been presented. However, a comparison will be presented for future years:

	Change in Net Assets		
	Governmental	Business-type	2005
	Activities 2005	Activities 2005	Total
Cash receipts			
Program cash receipts:			
Charges for services	\$ 568,116	\$ 1,340,456	\$ 1,908,572
Operating grants and contributions	240,947	-	240,947
Capital grants and contributions	<u>123,750</u>	<u>77,521</u>	<u>201,271</u>
Total program cash receipts	<u>932,813</u>	<u>1,417,977</u>	<u>2,350,790</u>
General cash receipts:			
Property taxes	177,522	-	177,522
Income taxes	634,075	-	634,075
Unrestricted grants and entitlements	137,556	-	137,556
Investment earnings	13,994	-	13,994
Proceeds of Loan	-	630,129	630,129
Miscellaneous	<u>21,937</u>	<u>27,795</u>	<u>49,732</u>
Total general cash receipts	<u>985,084</u>	<u>657,924</u>	<u>1,643,008</u>
Cash cash disbursements:			
General government	425,391	-	425,391
Security of persons and property	952,004	-	952,004
Transportation	188,664	-	188,664
Community environment	411	-	411
Leisure time activity	103,810	-	103,810
Capital outlay	285,182	-	285,182
Other	6,213	-	6,213
Debt service	45,473	-	45,473
Water	-	1,147,713	1,147,713
Sewer	<u>-</u>	<u>840,734</u>	<u>840,734</u>
Total cash disbursements	<u>2,007,148</u>	<u>1,988,447</u>	<u>3,995,595</u>
Change in net assets	(89,251)	87,454	(1,797)
Net assets at beginning of year	<u>429,945</u>	<u>577,770</u>	<u>1,007,715</u>
Net assets at end of year	<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

Governmental activities net assets decreased \$89,251 in 2005. Security of persons and property, which primarily supports the operations of the police and emergency medical services departments, accounted for \$952,004 of the total cash disbursements of the City. General cash receipts totaled \$985,084 and amounted to 51% of total cash receipts. General cash receipts primarily consist of property and income tax receipts.

The Statement of Activities-Modified Cash Basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as charges for services to support its governmental activities. In future years, when prior year information has been provided, a comparative analysis of governmental data will be presented.

Governmental Activities – Program Cash Receipts vs. Total Cash Disbursements

	Total Cost of Services 2005	Net Cost of Services 2005
	<u>2005</u>	<u>2005</u>
Program Cash Disbursements:		
General government	\$ 425,391	\$ 357,173
Security of persons and property	952,004	331,436
Transportation	188,664	(35,546)
Community environment	411	411
Capital outlay	285,182	285,182
Leisure time activity	103,810	83,993
Other	6,213	6,213
Debt service	<u>45,473</u>	<u>45,473</u>
 Total	 <u>\$ 2,007,148</u>	 <u>\$ 1,074,335</u>

Business-Type Activities

Business-Type activities include the water and sewer funds. These major funds had program cash receipts of \$1,417,977, general cash receipts of \$657,924 and cash disbursements of \$1,988,447 for 2005.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

Governmental Funds

The City's governmental funds are accounted for using the cash basis of accounting.

The City's governmental funds reported a combined fund cash balance of \$340,694, which is \$89,251 lower than last year's combined total of \$429,945. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2005 and December 31, 2004, for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/05</u>	Fund Balances <u>12/31/04</u>	<u>(Decrease)</u>
Major funds:			
General	\$ 139,858	\$ 67,059	\$ 72,799
Fire & EMS	117,982	317,544	(199,562)
Other governmental funds	<u>82,854</u>	<u>45,342</u>	<u>37,512</u>
Total	<u>\$ 340,694</u>	<u>\$ 429,945</u>	<u>\$ (89,251)</u>

Budgeting Highlights - General Fund

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the County Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the General and Fire & EMS funds. In the general fund, the actual cash receipts and other financing sources came in \$55,994 lower than they were in the final budget and actual cash disbursements and other financing uses were \$33,251 less than the amount in the final budget. Budgeted cash receipts increased \$218,672 from the original to the final budget. Budgeted cash disbursements increased \$248,711 from the original to the final budget due primarily to an increase in transfers out.

Capital Assets and Debt Administration

Capital Assets

The City does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as cash disbursements. The City had capital outlay cash disbursements of \$285,182 in governmental funds and \$542,502 in enterprise funds during 2005.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2005**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 200,000	\$ 231,897
Total long-term obligations	<u>\$ 200,000</u>	<u>\$ 231,897</u>
	<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>
OPWC loans	\$ 471,030	\$ 239,005
OWDA loans	2,695,699	2,458,506
Mortgage revenue bonds	<u>1,051,092</u>	<u>1,074,817</u>
Total long-term obligations	<u>\$4,217,821</u>	<u>\$ 3,772,328</u>

See Note 14 to the basic financial statements for more detail on the City's long-term debt obligations.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Teri Moore, Finance Director, City of New Lexington, 125 South Main Street, New Lexington, Ohio 43764.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2005

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Investments	\$ 340,694	\$ 665,224	\$ 1,005,918
<i>Total Assets</i>	<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>
Net Assets			
Restricted for:			
Security of Persons & Property	\$ 202,786	\$ -	\$ 202,786
Debt Service	40,541	-	40,541
Unrestricted	<u>97,367</u>	<u>665,224</u>	<u>762,591</u>
<i>Total Net Assets</i>	<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>

See accompanying notes to the basic financial statements

CITY OF NEW LEXINGTON

PERRY COUNTY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Cash Receipts				Net (Cash Disbursements) Cash Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 425,391	\$ 68,218	\$ -	\$ -	\$ (357,173)	\$ -	\$ (357,173)
Security of Persons and Property	952,004	480,081	16,737	123,750	(331,436)	-	(331,436)
Leisure Time Activities	103,810	19,817	-	-	(83,993)	-	(83,993)
Community Environment	411	-	-	-	(411)	-	(411)
Transportation	188,664	-	224,210	-	35,546	-	35,546
Capital Outlay	285,182	-	-	-	(285,182)	-	(285,182)
Other	6,213	-	-	-	(6,213)	-	(6,213)
Debt Service	45,473	-	-	-	(45,473)	-	(45,473)
<i>Total Governmental Activities</i>	<u>2,007,148</u>	<u>568,116</u>	<u>240,947</u>	<u>123,750</u>	<u>(1,074,335)</u>	<u>-</u>	<u>(1,074,335)</u>
Business Type Activity							
Water	1,147,713	768,826	-	59,850	-	(319,037)	(319,037)
Sewer	840,734	571,630	-	17,671	-	(251,433)	(251,433)
<i>Total Business Type Activities</i>	<u>1,988,447</u>	<u>1,340,456</u>	<u>-</u>	<u>77,521</u>	<u>-</u>	<u>(570,470)</u>	<u>(570,470)</u>
Total	<u>\$ 3,995,595</u>	<u>\$ 1,908,572</u>	<u>\$ 240,947</u>	<u>\$ 201,271</u>	<u>(1,074,335)</u>	<u>(570,470)</u>	<u>(1,644,805)</u>
General Cash Receipts:							
Property Taxes Levied for:							
General Purposes					177,522	-	177,522
Municipal Income Taxes					634,075	-	634,075
Grants and Entitlements not Restricted to Specific Programs					137,556	-	137,556
Proceeds of Loan					-	630,129	630,129
Interest					13,994	-	13,994
Miscellaneous					21,937	27,795	49,732
<i>Total General Receipts</i>					<u>985,084</u>	<u>657,924</u>	<u>1,643,008</u>
Change in Net Assets					(89,251)	87,454	(1,797)
<i>Net Assets Beginning of Year</i>					<u>429,945</u>	<u>577,770</u>	<u>1,007,715</u>
<i>Net Assets End of Year</i>					<u>\$ 340,694</u>	<u>\$ 665,224</u>	<u>\$ 1,005,918</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Fire & EMS Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 139,858	\$ 117,982	\$ 82,854	\$ 340,694
<i>Total Assets</i>	<u>\$ 139,858</u>	<u>\$ 117,982</u>	<u>\$ 82,854</u>	<u>\$ 340,694</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 2,000	\$ 905	\$ 395	\$ 3,300
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	137,858	-	-	137,858
Special Revenue Funds	-	117,077	41,918	158,995
Debt Service Fund	-	-	40,541	40,541
<i>Total Fund Balances</i>	<u>\$ 139,858</u>	<u>\$ 117,982</u>	<u>\$ 82,854</u>	<u>\$ 340,694</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
MODIFIED CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Fire & EMS Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts:				
Municipal Income Taxes	\$ 634,075	\$ -	\$ -	\$ 634,075
Property and Other Local Taxes	58,232	81,765	37,525	177,522
Charges for Services	308,644	226,127	-	534,771
Fines, Licenses and Permits	32,983	-	373	33,356
Intergovernmental	134,008	136,197	232,037	502,242
Interest	13,880	114	-	13,994
Miscellaneous	16,819	2,154	2,964	21,937
<i>Total Cash Receipts</i>	<u>1,198,641</u>	<u>446,357</u>	<u>272,899</u>	<u>1,917,897</u>
Cash Disbursements:				
Current:				
General Government	411,504	-	13,887	425,391
Security of Persons and Property	546,415	404,554	1,035	952,004
Leisure Time Activities	103,810	-	-	103,810
Community Environment	-	-	411	411
Transportation	-	-	188,664	188,664
Capital Outlay	16,822	223,559	44,801	285,182
Other	5,357	-	856	6,213
Debt Service	21,934	17,806	5,733	45,473
<i>Total Cash Disbursements</i>	<u>1,105,842</u>	<u>645,919</u>	<u>255,387</u>	<u>2,007,148</u>
<i>Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements</i>	<u>92,799</u>	<u>(199,562)</u>	<u>17,512</u>	<u>(89,251)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	33,048	33,048
Transfers Out	(20,000)	-	(13,048)	(33,048)
<i>Total Other Financing Sources (Uses)</i>	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	72,799	(199,562)	37,512	(89,251)
<i>Fund Balances Beginning of Year</i>	<u>67,059</u>	<u>317,544</u>	<u>45,342</u>	<u>429,945</u>
<i>Fund Balances End of Year</i>	<u>\$ 139,858</u>	<u>\$ 117,982</u>	<u>\$ 82,854</u>	<u>\$ 340,694</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Budgetary Basis Receipts:				
Municipal Income Taxes	\$ 548,019	\$ 663,696	\$ 634,075	\$ (29,621)
Property and Other Local Taxes	50,329	60,952	58,232	(2,720)
Charges for Services	266,755	323,062	308,644	(14,418)
Fines, Licenses and Permits	28,507	34,524	32,983	(1,541)
Intergovernmental	115,821	140,268	134,008	(6,260)
Interest	11,996	14,528	13,880	(648)
Miscellaneous	14,536	17,605	16,819	(786)
	<u>1,035,963</u>	<u>1,254,635</u>	<u>1,198,641</u>	<u>(55,994)</u>
Budgetary Basis Disbursements:				
Current:				
General Government	267,632	416,485	413,504	2,981
Security of Persons and Property	585,286	611,052	546,415	64,637
Leisure Time Activities	52,689	130,696	103,810	26,886
Capital Outlay	-	-	16,822	(16,822)
Other	5,029	-	5,357	(5,357)
Debt Service	1,746	2,860	21,934	(19,074)
	<u>912,382</u>	<u>1,161,093</u>	<u>1,107,842</u>	<u>53,251</u>
<i>Excess (Deficiency) of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements</i>	<u>123,581</u>	<u>93,542</u>	<u>90,799</u>	<u>(2,743)</u>
Other Financing Sources (Uses)				
Transfers Out	-	-	(20,000)	(20,000)
	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
<i>Net Change in Fund Balance</i>	<u>123,581</u>	<u>93,542</u>	<u>70,799</u>	<u>(22,743)</u>
<i>Fund Balance at Beginning of Year</i>	41,925	41,925	41,925	-
Prior Year Encumbrances Appropriated	25,134	25,134	25,134	-
<i>Fund Balance at End of Year</i>	<u>\$ 190,640</u>	<u>\$ 160,601</u>	<u>\$ 137,858</u>	<u>\$ (22,743)</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
FIRE & EMS FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Basis Receipts:				
Property and Other Local Taxes	\$ 125,266	\$ 92,002	\$ 81,765	\$ (10,237)
Charges for Services	346,433	254,438	226,127	(28,311)
Intergovernmental	208,657	153,249	136,197	(17,052)
Interest	175	128	114	(14)
Interest	3,300	2,424	2,154	(270)
<i>Total Budgetary Basis Receipts</i>	<u>683,831</u>	<u>502,240</u>	<u>446,357</u>	<u>(55,883)</u>
Budgetary Basis Disbursements:				
Current:				
Security of Persons and Property	438,272	563,821	405,459	158,362
Capital Outlay	-	123,760	223,559	(99,799)
Debt Service	24,500	17,807	17,806	1
<i>Total Budgetary Basis Disbursements</i>	<u>462,772</u>	<u>705,388</u>	<u>646,824</u>	<u>58,564</u>
<i>Net Change in Fund Balance</i>	221,059	(203,148)	(200,467)	(114,447)
<i>Fund Balance at Beginning of Year</i>	314,417	314,417	314,417	-
Prior Year Encumbrances Appropriated	<u>3,127</u>	<u>3,127</u>	<u>3,127</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 538,603</u>	<u>\$ 114,396</u>	<u>\$ 117,077</u>	<u>\$ (114,447)</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
ENTERPRISE FUNDS
DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
Assets:			
Equity in Pooled Cash and Investments	\$ 441,000	\$ 224,224	\$ 665,224
<i>Total Assets</i>	\$ 441,000	\$ 224,224	\$ 665,224
Net Assets:			
Unrestricted	\$ 441,000	\$ 224,224	\$ 665,224
<i>Total Net Assets</i>	\$ 441,000	\$ 224,224	\$ 665,224

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Cash Receipts:			
Charges for Services	\$ 768,826	\$ 571,630	\$ 1,340,456
Other Operating Receipts	27,795	-	27,795
<i>Total Operating Cash Receipts</i>	<u>796,621</u>	<u>571,630</u>	<u>1,368,251</u>
Operating Disbursements:			
Personal Services	334,685	261,894	596,579
Contractual Services	224,937	108,318	333,255
Materials and Supplies	115,823	42,346	158,169
<i>Total Operating Cash Disbursements</i>	<u>675,445</u>	<u>412,558</u>	<u>1,088,003</u>
<i>Operating Income</i>	<u>121,176</u>	<u>159,072</u>	<u>280,248</u>
Non-Operating Cash Receipts (Cash Disbursements):			
Intergovernmental	59,850	17,671	77,521
Proceeds of Loan	387,629	242,500	630,129
Debt Service	(207,663)	(150,279)	(357,942)
Capital Outlay	(264,605)	(277,897)	(542,502)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(24,789)</u>	<u>(168,005)</u>	<u>(192,794)</u>
<i>Change in Net Assets</i>	96,387	(8,933)	87,454
<i>Net Assets at Beginning of Year</i>	<u>344,613</u>	<u>233,157</u>	<u>577,770</u>
<i>Net Assets at End of Year</i>	<u>\$ 441,000</u>	<u>\$ 224,224</u>	<u>\$ 665,224</u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
DECEMBER 31, 2005

	<u>Agency</u>
Cash Assets:	
Equity in Pooled Cash and Investments	<u>\$ 22,604</u>
<i>Total Assets</i>	<u><u>\$ 22,604</u></u>
Net Assets:	
Unrestricted	<u>\$ 22,604</u>
Total Net Assets	<u><u>\$ 22,604</u></u>

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1– REPORTING ENTITY

The City of New Lexington, Perry County (the City) is a home rule municipal corporation established under the laws of the State of Ohio. The City operates under its own Charter, a home-rule municipality as defined by Title 7 of the Ohio Revised Code. The City operates under a Council-Mayor form of government. Four council members are elected from wards for four year terms. The Mayor, President of Council and three council members are elected by separate ballot from the municipality at large for four year terms. The Mayor may veto any legislation passed by Council. In addition to establishing City policies, Council is responsible for passing ordinances, adopting the budget, and appointing boards and commissions. The Mayor is responsible for carrying out the policies and ordinances of Council, for overseeing the day-to-day operating of the City and for appointing the heads of the various City departments. An appointed finance director is responsible for the fiscal control of the financial resources of the City.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. The primary government of the City provides the following services to its citizens: police and EMS protection, parks and recreation, building inspection, street maintenance and repairs, and water and sewer services. Council has direct responsibility for these services.

B. Component Units

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. The City is also financially accountable for any organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the City, are accessible to the City and are significant in amount to the City. The City has no component units.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 – REPORTING ENTITY (Continued)

C. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City has no joint ventures.

The City is associated with the New Lexington-Pike Township Union Cemetery, which is defined as a jointly governed organization. This organization is presented in Note 18 to the basic financial statements.

The basic financial statements exclude the following entity which performs activities within the City's boundaries for the benefit of its residents because the City is not financially accountable for these entities nor are they fiscally dependent on the City:

New Lexington City School District – The New Lexington City School District (District) performs activities within the City's boundaries for the benefit of its residents and is excludable from the accompanying financial statements because the City is not financially accountable for the District nor is the District fiscally dependent on the City.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The statement of activities compares disbursements and program receipts for each program or function of the City's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the City is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the City, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program or business activity is self-financing on a modified cash basis or draws from the general receipts of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are presented in three categories: governmental, proprietary, and fiduciary.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds:

General - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fire & EMS Fund – The Fire & EMS Fund receives taxes, intergovernmental, and charges for services receipts which are used to provide emergency medical services to City residents.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

Proprietary Fund

The City classifies funds financed primarily from user charges for goods or services as proprietary. The City's proprietary fund is classified as enterprise funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2005. Agency funds are purely custodial in nature and are used to account for assets held by the City for individuals and other governments and organizations for building and related permit fees and for compliance with building codes. The City had the following Agency fund:

Escrow Cash Fund – This fund accounts for retainage monies set-aside for specific contracts entered into by the City.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The City's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the fund, function, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the City Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the City Council during the year.

E. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. 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 negative receipts (contra revenue), respectively.

During 2005, the City invested in nonnegotiable certificates of deposit which are reported at cost.

Interest earnings are allocated to City funds according to State statutes, the Charter and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$13,880.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted. The City did not have any restricted assets during 2005.

G. Inventory and Prepaid Items

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Interfund Receivables/Payables

The City reports advances-in and advances-out for interfund loans. The City did not have interfund receivables/payables during 2005.

J. Accumulated Leave

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

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The City's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include activities involving the upkeep of the City's roads and bridges, security of persons and property, or debt service. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

N. Fund Balance Reserves

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in 2005.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING

In the prior year the City reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the Auditor of State’s Office. The City has elected to implement the modified cash basis of accounting as described in Note 2. The fund financial statements are now presented each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

In March of 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principle areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that included investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment’s denomination. The provisions of this statement are effective for financial statements for the year ending December 31, 2005. The implementation of this GASB had no impact on the financial position of the City at December 31, 2005.

NOTE 5 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

NOTE 6 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General and Fire & EMS Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$2,000
Fire & EMS Fund	905

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 7 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 7 - DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$959,783 of the City's bank balance of \$1,028,522 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Interest Rate Risk - Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk by requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit Risk – The certificates of deposit are not exposed to credit risk. The City has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

Concentration of Credit Risk – The City has not established an investment policy dealing with concentration of credit risk beyond the requirements established within state statutes.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 7 - DEPOSITS AND INVESTMENTS (Continued)

Reconciliation of Cash and its Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments to the Statement of Net Assets at December 31, 2005:

Carrying amount of City's deposits (summarized above)	\$ 1,028,522
Cash and cash equivalents – Statement of Fiduciary Net Assets	<u>(22,604)</u>
Cash and cash equivalents – Statement of Net Assets	<u>\$ 1,005,918</u>

NOTE 8 – INCOME TAXES

The City levies a 1% income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1% must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration. Income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2005, the receipts were allocated to the general fund in the amount of \$634,075.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 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. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with Acordia for building and personal property coverage in the amount of \$8,739,713. The policy includes a \$1,000 deductible.

Professional and general liability is protected by Acordia with a \$1,000,000 single occurrence limit with \$3,000,000 aggregate and no deductible. Vehicles are covered by Acordia and hold a \$500 deductible for collusion. Vehicle liability had a \$1,000,000 combined single limit of liability.

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The City provides comprehensive health insurance plan with Anthem Blue Cross/Blue Shield for all eligible employees. The City pays 100% of all premiums. The monthly premium for this coverage is \$879.78 for family, \$626.56 for two persons, and \$285.06 for an individual. The insurance provides prescription drug insurance. Dental coverage is also provided through Anthem Blue Cross/Blue Shield. The City pays 100% of the premium for employees. Monthly premiums for this coverage are \$81.07 and \$26.26, respectively for family and single coverage. Vision coverage is through VSP. Premiums for family and member plus one coverage are \$17.89 and \$7.91 for individual coverage monthly. Life insurance coverage is provided through Anthem Life. This provides \$15,000 of coverage for employees. Premiums are \$5.10 per month. The City pays 100% of this premium.

NOTE 11 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2005, members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Members participating in the traditional plan, who were in law enforcement, contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$118,395, \$110,876, and \$128,232, respectively. The full amount has been contributed for 2004, 2003 and 2002.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the Fund for police officers for the years ended December 31, 2005, 2004, and 2003 were \$50,110, 54,526, and 50,595. The full amount has been contributed for 2005, 2004 and 2003.

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 percent was the portion used to fund health care.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$580,250. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2003 (the latest information available), was \$10 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the OPERS Board adopted the Health Care “Choices” Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2004, with no prior service credit accumulated toward health care coverage. The Choices Plan will incorporate a cafeteria approach offering a broader range of health care options. The Choices Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Choices Plan will also offer a spending account feature enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a medical spending account.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund’s board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City’s actual contributions for 2005 that were used to fund postemployment benefits were \$3,883 for police. The OP&F’s total health care expense for the year ended December 31, 2004 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,662 for police and 10,474 for firefighters.

NOTE 13 – NOTE PAYABLE

The changes in the City’s note payable during December 31, 2005, were as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
Various Purpose General Obligation Notes	5.8-6.35%	\$37,325	\$0	(\$37,235)	\$0	\$0
Total Governmental Activities		<u>\$37,325</u>	<u>\$0</u>	<u>(\$37,235)</u>	<u>\$0</u>	<u>\$0</u>

The Various Purpose General Obligation Notes are direct obligations of the City for which its full faith, credit and resources are pledged and payable from taxes levied on all taxable property in the City. Outstanding general obligation notes were issued for the acquisition of a police cruiser, a chassis for an emergency medical services vehicle, computer software and a fire rescue truck.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 – DEBT

The City’s long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
Swimming Pool G.O. Bonds	5.9%	\$215,000	\$0	(\$15,000)	\$200,000	\$10,000
Vehicle Acquisition G.O. Bonds	5.1%- 6.15%	16,897	0	(16,897)	0	0
Total Governmental Activities		<u>\$231,897</u>	<u>\$0</u>	<u>(\$31,897)</u>	<u>\$200,000</u>	<u>\$10,000</u>
<u>Business-Type Activities</u>						
Water Detention Structure Revenue Bonds	3.225%	\$93,817	\$0	(\$10,725)	\$83,092	\$11,125
Sanitary Sewer System Revenue Bonds	4.5%	981,000	0	(13,000)	968,000	14,000
Ohio Water Development Authority Loans	1.5%- 7.89%	2,458,506	387,629	(150,436)	2,695,699	126,106
Ohio Public Works Commission Loan	1.5%-2%	239,005	242,500	(10,475)	471,030	10,635
Total Business-Type Activities		<u>\$3,772,328</u>	<u>\$630,129</u>	<u>(\$184,636)</u>	<u>\$4,217,821</u>	<u>\$161,866</u>

Mortgage revenue bonds are obligations of the City for which its full faith, credit and resources are pledged and are payable from user charges assessed for water and sewer services. Outstanding mortgage revenue bonds consist of water and sewer improvement issues.

General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and payable from taxes levied on all property in the City. Outstanding general obligation bonds consist of swimming pool construction issue and the acquisition of an emergency medical services vehicle.

The Ohio Water Development Authority (OWDA) Loans are payable from user charges assessed for water and sewer services. These loans were used to make water and sewer system improvements. During 2005, OWDA disbursed \$387,629 for Equalization Basin, Reservoir Pumping Transfer Station, Water Distribution and Treatment Plant Improvements, Wastewater Treatment Plant Improvement, Water Treatment Plant Design, and Water Storage Tank Replacement projects. Amortization schedules have not been prepared for these projects due to OWDA not finalizing financing terms and repayment arrangements. Once these items are finalized, amortization schedules will be presented accordingly and included with the amortization below.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 – DEBT (Continued)

The Ohio Public Works Commission (OPWC) Loans are for the construction of a sewer pumping station and equalization basin project and wastewater treatment plant. The equalization basin project and wastewater treatment plant project loan agreement with the OPWC was financed in 2002 for a total of \$122,000. In 2005, the OPWC disbursed \$242,500 for the wastewater treatment plant and lagoon project. Once this project is finalized, amortization schedules will be presented for these loans accordingly and included with the amortization below.

The following is a summary of the City’s future annual debt service requirements at December 31, 2005:

Year	USDA 79-01		USDA 92-07		Swimming Pool Bond Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$11,125	\$2,684	\$14,000	\$43,560	\$10,000	\$11,800
2007	11,484	2,325	14,000	42,930	15,000	11,210
2008	11,854	1,955	14,000	42,300	15,000	10,325
2009	12,237	1,572	15,000	41,670	15,000	9,440
2010	12,631	1,178	16,000	40,995	20,000	8,555
2011 – 2105	23,761	1,120	91,000	193,545	100,000	25,075
2016 – 2020	0	0	113,000	171,225	25,000	1,475
2021 – 2025	0	0	141,000	143,370	0	0
2026 – 2030	0	0	175,000	108,720	0	0
2031 – 2035	0	0	219,000	65,520	0	0
2036 – 2038	0	0	156,000	14,220	0	0
Totals	\$83,092	\$10,834	\$968,000	\$908,055	\$200,000	\$77,880

Year	Total OWDA		Total OPWC	
	Principal	Interest	Principal	Interest
2006	\$126,096	\$79,943	\$10,688	\$4,516
2007	132,695	73,343	10,901	4,303
2008	139,740	66,299	11,120	4,084
2009	147,268	57,771	11,344	3,860
2010	155,313	50,726	11,572	3,632
2011 – 2105	649,796	114,627	61,444	14,576
2016 – 2020	59,381	12,686	67,371	8,649
2021 – 2025	65,598	6,474	44,130	1,140
2026 – 2030	28,122	706	0	0
2031 – 2035	0	0	0	0
2036 – 2038	0	0	0	0
Totals	\$1,504,009	\$462,575	\$228,570	\$44,760

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 15 – LEASES

The City has entered into capitalized leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The following summarize the City's capital lease activity for 2005:

The City entered into a lease-purchase agreement in the amount of \$17,121 for new computer software. Total principal and interest is \$18,204 with the final payment occurring in 2007.

The City entered into a lease-purchase agreement in the amount of \$79,262 for a new 2006 international dump truck. Total principal and interest is \$70,755 with the final payment occurring in 2008.

The City entered into a lease-purchase agreement in the amount of \$52,322 for a new 2005 Pierce Engine Pumper. Total principal and interest is \$56,244 with the final payment occurring in 2008.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005:

Year Ending December 31,	Amount
2006	\$56,152
2007	56,152
2008	<u>32,899</u>
Total Minimum Lease Payments	145,203
Less: Amount Representing Interest	<u>(9,059)</u>
Present Value Minimum Lease Payments	<u>\$136,144</u>

Under the basis of accounting as described in Note 2, these amounts are not reflected as assets and liabilities within the accompanying financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 16 – INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2005 consisted of the following:

Transfer from General Fund to:	
Other Governmental Fund	\$20,000
Transfer from Other Governmental Fund to:	
Other Governmental Fund	<u>13,048</u>
Total	<u>\$33,048</u>

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 17 – CONTINGENT LIABILITIES

The City is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the City's financial condition.

Amounts grantor agencies pay to the City are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

The New Lexington-Pike Township Union Cemetery (the Cemetery) Board of Trustees are appointed by the City and Pike Township. Taxes levied by the City for cemetery maintenance are collected by the Perry County Auditor, distributed to the City, and then forwarded to the Cemetery. The Cemetery is a legally-separate entity that prepares and files its own financial statements. Financial statements can be obtained from the Clerk/Treasurer of the Cemetery at 440 Swigart Street, New Lexington, Ohio 43764.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Council
City of New Lexington
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 9, 2006, wherein we noted the City has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. 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 Control Over Financial Reporting

In planning and performing our audit, we considered City of New Lexington'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 an opinion 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. However, we noted instances involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of New Lexington's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-04 through 2005-06.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, reportable conditions 2005-04 and 2005-05 described above are considered to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of City of New Lexington in a separate letter dated June 9, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of New 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, 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 is described in the accompanying Schedule of Findings as items 2005-01, 2005-02 and 2005-03. We also noted certain immaterial instances of noncompliance, which we have reported to management of City of New Lexington in a separate letter dated June 9, 2006.

Independent Auditors' Report
on Compliance and Internal Control
Page 2

This report is intended for the information of the Mayor, City Council, Management, and Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 9, 2006

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-01

Noncompliance Citation

Ohio Administrative Code 117-2-03(B) and Ohio Revised Code Section 117.38 requires the City of New Lexington to prepare its annual financial statement in accordance with accounting principles generally accepted in the United States of America. However, the City of New Lexington prepared its financial statement on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The City of New Lexington can be fined and various other legal administrative remedies may be taken against the City of New Lexington.

We recommend that the City of New Lexington take the necessary steps to ensure that the annual financial statement is prepared on accounting principles generally accepted in the United States of America.

Client Response: Client is aware of requirement.

FINDING NUMBER 2005-02

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) prohibits the expenditure of funds unless they have been properly appropriated. As of December 31, 2005, expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Expenditures	Variance
State Highway	\$ 2,056	\$ 10,487	\$ (8,431)
Cemetery	11,000	14,298	(3,298)
Permissive Tax	10,000	39,602	(29,602)
FEMA	-	3,048	(3,048)
Sewer	755,375	827,327	(71,952)

We recommend that the City review expenditures so that they do not exceed appropriations.

Client Response: Client concurs on finding for 2005. Will review more closely in future.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING 2005-03

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) states in part that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

Prior certification was not obtained for 31.0% of the expenditures tested.

The Finance Director should certify funds before each payment is made through the issuance of a regular, blanket, or super blanket purchase order. Blanket certificates should be issued for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of council against any specific line item account over a period not running beyond the end of the current fiscal year. A super blanket purchase order can be completed for any amount for expenditures and contracts from a specific line item appropriation account in a specified fund for most recurring or reasonable predictable operating expenditures. This is not to extend beyond the current year. More than one super blanket may be outstanding at one particular time for a particular line item appropriation account.

Also, as an alternative, the City can issue then and now certificates for expenses up to \$3,000. Then and now certificates allow the Finance Director to certify that both at the time the expenditure was made and at the time that the certification is completed, sufficient funds are available. These certificates can be certified by the Finance Director without subsequent authorization from Council. However, then and now certificates issued by the Finance Director over \$3,000 must be authorized by Council within thirty days after payment.

Client Response: Client concurs on finding for 2005. Will review more closely in future.

FINDING NUMBER 2005-04

Material Weakness - Financial Reporting

It was noted that the financial accounting system does not provide the City with the accurate financial data needed by the City to monitor the City's finances. The City has to perform a reconciliation of the receipts and disbursements provided by the computer system to a spreadsheet to provide year end numbers for the annual report (and agree to the year end bank reconciliation) and the encumbrance reporting part of the system does not clear out paid encumbrances and it must be done manually. There is no system manual to refer to when problems arise and computer support is not always available when needed.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING 2005-04 (Continued)

We recommend the employees be adequately trained on this system and that sufficient support services be available to meet this need. Each months reports must be reviewed and reconciled to ensure financial data accuracy. Safeguards may need to be instituted in the system to ensure only valid corrections and adjustments are made. A report should be provided listing all the changes and the results of the changes where applicable. The City should also require a user's manual be provided for the system. The overall system should be reviewed by Council to determine if adequate adjustments can be made to meet the reporting requirements of the City.

Client Response: Client will perform reconciliation where necessary. Looking into new software.

FINDING NUMBER 2005-05

Material Weakness - Budgetary Laws and Regulations Process

The City does not have a process in place to assure the duties of the Finance Director, Finance Committee, and Council are complying with all budgetary laws and regulations. As a result, the City is in violation of numerous budgetary laws and regulations as described in the audit report and management letter.

We recommend the City establish a chart of all budgetary laws, date requirements for those laws, person responsible for complying with the law, and establishing the person responsible for overseeing that compliance matters are being adhered to.

Client Response: Client will, as time permits, to establish procedures and duties manual.

FINDING NUMBER 2005-06

Reportable Condition - Accounting Manual

The City does not have an accounting manual describing the procedures to follow to complete accounting tasks. This could present a significant problem if an employee is off work for a lengthy period of time, or turnover in employees occur. We noted inconsistencies in the account coding that lead to several fund, as well as object code misclassifications.

We recommend an accounting manual be compiled which outlines each accounting task, including step by step instructions on how to accomplish certain tasks, time deadlines, authorization signatures and documents required, and any other items deemed significant by the City Finance Director. We also recommend that employees be cross-trained in the accounting tasks as deemed necessary by the Finance Director to give greater assurance that the accounting process continues to operate effectively in case an employee is off work for a significant period of time.

Client Response: Client will, as time permits, to establish procedures and duties manual.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2005**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-01	OAC 117-2-03B Not filing report in accordance with GAAP	No	Not Corrected. Cited in current report as finding 2005-01
2004-02	ORC 5705.41(B) Expenditures greater than appropriations	No	Not Corrected. Cited in current report as item 2005-02.
2004-03	ORC 5705.41(D) Invoice dated prior to fiscal certificate	No	Not Corrected. Cited in current report as item 2005-03
2004-04	Material Weakness Financial Reporting	No	Not Corrected. Cited in current report as item 2005-04
2004-05	Material Weakness Budgetary Laws	No	Not Corrected. Cited in current report as item 2005-05
2004-06	Material Weakness Accounting Manual	No	Not Corrected. Cited in current report as item 2005-06



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CITY OF NEW LEXINGTON

PERRY 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
AUGUST 15, 2006**