

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO
FINANCIAL STATEMENTS – CASH BASIS**

DECEMBER 31, 2012



Dave Yost • Auditor of State

Village Council
Village of New Lexington
215 South Main Street
New Lexington, Ohio 43764

We have reviewed the *Independent Auditors' Report* of the Village of New Lexington, Perry County, prepared by Hurst, Kelly & Company LLC, for the audit period January 1, 2012 through December 31, 2012. 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 Village of New Lexington is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 2, 2013

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VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO

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INDEPENDENT AUDITOR'S REPORT

Village of New Lexington
215 South Main Street
New Lexington, Ohio 43764

To Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of New Lexington, Perry County, (the Village) as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting the financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting the financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on the financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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

As described in Note 1 of the financial statements, the Village prepared the financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012, or changes in financial position or cash flows thereof, for the year then ended.

Opinion on Regulatory Basis of Accounting

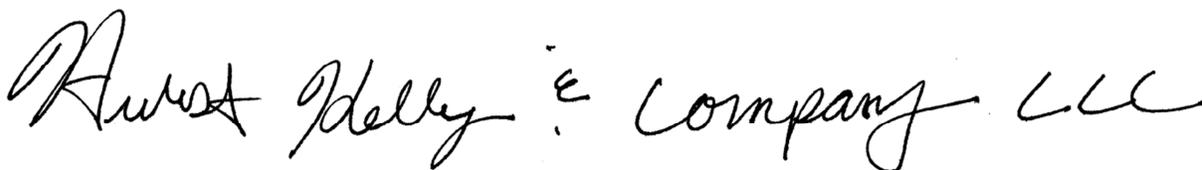
In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of New Lexington, Perry County, as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

The cash basis financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 12 to the basic financial statements, the Village has suffered recurring negative changes in fund balances and has cash-basis deficiencies in the General Fund and Fire and EMS Fund that raise substantial doubt about its ability to continue as a going concern. Note 12 describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.



Loveland, Ohio
October 7, 2013

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$ 58,966	\$ 78,001	\$ 25,300	\$ -	\$ 162,267
Municipal Income Tax	831,416	-	-	-	831,416
Intergovernmental	225,819	243,191	2,094	170,139	641,243
Charges for Services	387,328	246,306	-	-	633,634
Fines, Licenses and Permits	71,897	25,226	-	-	97,123
Earnings on Investments	2,182	136	2	-	2,320
Miscellaneous	68,189	10,904	-	-	79,093
<i>Total Cash Receipts</i>	<u>1,645,797</u>	<u>603,764</u>	<u>27,396</u>	<u>170,139</u>	<u>2,447,096</u>
Cash Disbursements					
Current:					
Security of Persons and Property	780,759	504,912	-	-	1,285,671
Public Health Services	-	26,643	-	-	26,643
Leisure Time Activities	56,881	-	895	-	57,776
Transportation	5,723	166,786	-	-	172,509
General Government	519,759	-	-	-	519,759
Capital Outlay	1,518	200,430	-	170,139	372,087
Debt Service:					
Principal Retirement	49,534	38,138	20,000	-	107,672
Interest and Fiscal Charges	79,399	6,716	6,195	-	92,310
<i>Total Cash Disbursements</i>	<u>1,493,573</u>	<u>943,625</u>	<u>27,090</u>	<u>170,139</u>	<u>2,634,427</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>152,224</u>	<u>(339,861)</u>	<u>306</u>	<u>-</u>	<u>(187,331)</u>
Other Financing Receipts (Disbursements)					
Sale of Notes	-	200,430	-	-	200,430
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>200,430</u>	<u>-</u>	<u>-</u>	<u>200,430</u>
<i>Net Change in Fund Cash Balances</i>	152,224	(139,431)	306	-	13,099
<i>Fund Cash Balances, January 1</i>	<u>(353,798)</u>	<u>(88,705)</u>	<u>51,623</u>	<u>-</u>	<u>(390,880)</u>
Fund Cash Balances, December 31					
Restricted	-	165,600	51,929	-	217,529
Assigned	1,935	-	-	-	1,935
Unassigned (Deficit)	(203,509)	(393,736)	-	-	(597,245)
<i>Fund Cash Balances, December 31</i>	<u>\$ (201,574)</u>	<u>\$ (228,136)</u>	<u>\$ 51,929</u>	<u>\$ -</u>	<u>\$ (377,781)</u>

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

VILLAGE OF NEW LEXINGTON
PERRY COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	\$ 1,953,361
Miscellaneous	12,003
	1,965,364
<i>Total Operating Cash Receipts</i>	<i>1,965,364</i>
Operating Cash Disbursements	
Personal Services	716,505
Contractual Services	454,625
Supplies and Materials	340,813
	1,511,943
<i>Total Operating Cash Disbursements</i>	<i>1,511,943</i>
<i>Operating Income (Loss)</i>	<i>453,421</i>
Non-Operating Receipts (Disbursements)	
Intergovernmental	188,749
Earnings on Investments	30
Proceeds from Loans	118,094
Capital Outlay	(305,614)
Principal Retirement	(449,321)
Interest and Other Fiscal Charges	(152,245)
	(600,307)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(600,307)</i>
<i>Net Change in Fund Cash Balances</i>	<i>(146,886)</i>
<i>Fund Cash Balances, January 1</i>	<i>813,144</i>
<i>Fund Cash Balances, December 31</i>	<i>\$ 666,258</i>

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

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of New Lexington, Perry County, (the Village) as a body corporate and politic. A publicly-elected Mayor and seven-member Council direct the Village. The Village provides various services including police, fire and EMS protection, parks and recreation, street maintenance and repair, and water and sewer utilities.

The Village is associated with the New Lexington-Pike Township Union Cemetery, which is defined as a jointly governed organization. Note 11 to the financial statements provides additional information for this entity.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. Note 9 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant special revenue funds:

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

Fire and EMS Fund – This fund receives property tax, intergovernmental and charges for services receipts which are used to provide fire protection and EMS services to Village residents and residents of other political subdivisions that have contracted with the Village to provide fire protection and EMS services.

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. The Village had the following significant debt service fund:

Pool Improvement Bond Fund – This fund receives property tax and intergovernmental receipts that are used to service debt issued for improvement of the Village pool.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Village Capital Projects Fund – This fund accounts for major capital projects undertaken within the Village.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant enterprise funds:

Water Fund – This fund receives charges for services from residents to cover water service costs.

Sewer Fund – This fund receives charges for services from residents to cover sewer service costs.

VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2012 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used

G. Property, Plant, and Equipment

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

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2012, was as follows:

Demand Deposits	\$ 212,072
Certificates of Deposit	76,405
Total Deposits	<u>\$ 288,477</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2012, is as follows:

<u>2012 Budgeted vs. Actual Receipts</u>			
Fund Type:	Budgeted	Actual	Variance
	Receipts	Receipts	
General Fund	\$ 1,300,000	\$ 1,645,797	\$ 345,797
Special Revenue	623,776	804,194	180,418
Debt Service	27,000	27,396	396
Capital Project	-	170,139	170,139
Enterprise	2,337,139	2,272,237	(64,902)
Total	\$ 4,287,915	\$ 4,919,763	\$ 631,848

<u>2012 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
Fund Type:	Appropriation	Budgetary	Variance
	Authority	Expenditures	
General Fund	\$ 1,355,376	\$ 1,495,508	\$ (140,132)
Special Revenue	713,294	944,010	(230,716)
Debt Service	28,000	27,090	910
Capital Project	-	170,139	(170,139)
Enterprise	1,924,843	2,442,953	(518,110)
Total	\$ 4,021,513	\$ 5,079,700	\$ (1,058,187)

4. Noncompliance

Negative Cash Fund Balances

The Village had negative fund balances in the General Fund and Fire and EMS Fund at December 31, 2012, which is contrary to Ohio Revised Code Section 5705.10 (H).

Appropriations Exceeding Actual Resources

The Village had appropriations in excess of actual resources in the Street Fund during 2012, which is contrary to Ohio Revised Code Section 5705.36 (A)(4).

Appropriations Exceeding Estimated Resources

The Village had appropriations in excess of estimated resources in the General Fund, Fire and EMS Fund, and Street Fund during 2012, which is contrary to Ohio Revised Code Section 5705.39.

Expenditures Exceeding Appropriations

The Village had expenditures in excess of appropriations in the General Fund, Fire and EMS Fund, Fire Fund, Cemetery Fund, Village Capital Project Fund, Water Fund, and Sewer Fund during 2012, which is contrary to Ohio Revised Code Section 5705.41(B).

Failure to Properly Encumber

The Village did not properly certify the availability of funds for all required disbursements made during 2012, which is contrary to Ohio Revised Code Section 5705.41(D).

Failure to Properly Establish Funds

The Village failed to establish a special fund for the 1984 fire levy, which is contrary to the requirements of Ohio Revised Code Section 5705.09(D).

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

5. Property Tax

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

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

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

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

6. Local Income Tax

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

7. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Swimming Pool G.O. Bonds	\$ 85,000	5.90%
Municipal Building Note	1,141,700	4.50%
Fire Truck Note	11,864	4.50%
Building Note	560,970	4.50%
Police SUV Note	30,042	3.45%
Fire Department Truck Note	19,321	3.45%
Squad Note	172,678	3.623%
Sanitary Sewer Sytem Revenue Bonds	861,000	4.50%
Ohio Water Development Authority Loans	2,881,816	1.50% to 7.89%
Ohio Public Works Commission Loans	419,879	0% to 2.00%
Total	\$ 6,184,270	

General obligation bonds are direct obligations of the Village for which its full faith, credit and resources are pledged and payable from taxes levied on all property in the Village. Outstanding general obligation bonds consisted of a bond that was issued to make improvements to the Village's swimming pool.

General obligation notes are direct obligations of the Village for which its full faith, credit and resources are pledged and payable from taxes levied on all property in the Village. During 2012, the Village issued \$200,430 in general obligation notes at 3.623%, payable over 6 years.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Revenue bonds are obligations of the Village 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.

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 2012, OWDA disbursed \$118,094 for Water Treatment Plant Improvements and sludge dewatering projects. Amortization schedules have not been prepared for all projects due to OWDA not finalizing financing terms and repayment arrangements. Once these items are finalized, full amortization schedules will be presented accordingly.

The Ohio Public Works Commission (OPWC) Loans are for the construction of a sewer pumping station and equalization basin project and wastewater treatment plant.

Amortization of the Village's outstanding debt at December 31, 2012, including interest, is scheduled as follows:

Year Ending December 31:	Swimming	Municipal	Fire Truck	Police SUV	
	Pool G.O. Bonds				Building Note
2013	\$ 25,015	\$ 74,972	\$ 6,425	\$ 45,822	\$ 8,105
2014	23,835	74,972	6,130	45,822	8,105
2015	22,655	74,972	-	45,822	8,105
2016	26,475	74,972	-	45,822	8,105
2017	-	74,972	-	45,822	-
2018-2022	-	374,862	-	229,109	-
2023-2027	-	374,862	-	229,109	-
2028-2032	-	639,637	-	134,317	-
Total	<u>\$ 97,980</u>	<u>\$ 1,764,221</u>	<u>\$ 12,555</u>	<u>\$ 821,645</u>	<u>\$ 32,420</u>

Year Ending December 31:	Fire	Sanitary	Ohio Water	Ohio Public	
	Department Truck Note				Squad Note
2013	\$ 5,213	\$ 43,946	\$ 56,745	\$ 111,910	\$ 26,125
2014	5,213	43,946	56,935	217,321	26,125
2015	5,213	43,946	57,080	77,289	26,125
2016	5,213	43,946	57,180	77,289	26,125
2017	-	10,988	57,235	77,289	26,125
2018-2022	-	-	283,740	386,447	130,625
2023-2027	-	-	284,365	386,448	77,071
2028-2032	-	-	285,385	166,242	36,450
2033-2037	-	-	281,315	80,347	34,000
2038-2042	-	-	57,475	-	34,000
Total	<u>\$ 20,852</u>	<u>\$ 186,772</u>	<u>\$ 1,477,455</u>	<u>\$ 1,580,582</u>	<u>\$ 442,771</u>

* The amortization schedules above for OWDA loans (loans 4700 and 5837 with aggregate principal balances outstanding at December 31, 2012 of \$1,523,927) are not yet finalized. Therefore the above amortization schedules do not include principal and interest for OWDA loans 4700 and 5837.

**VILLAGE OF NEW LEXINGTON
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**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Additionally, the Village has entered into a lease agreement for a backhoe to be used by various Village departments. Annual lease payments of \$16,401 are due in years 2013 through 2017.

8. Retirement Systems

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OP&F participants contributed 10% of their wages. For 2012, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

9. Risk Management

The Government is exposed to various risks of property and casualty losses, and injuries to employees.

The Government insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2012.

Assets	\$34,389,569
Liabilities	<u>(14,208,353)</u>
Net Position	<u>\$20,181,216</u>

At December 31, 2012, the liabilities above include approximately \$13.1 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million of unpaid claims to be billed to approximately 466 member governments in the future as of December 31, 2012. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Government's share of these unpaid claims collectible in future years is approximately \$43,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

The Villages contributions to PEP during 2012 were \$50,188.

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

10. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal, state and other local governments. The grantor 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.

In 2010, the Village entered into a joint use agreement with Hocking Technical College in which the Village agreed to receive \$750,000 in capital funds to be used to finance a portion of the Village's fire department building project. In exchange for the capital funds, the Village agreed to allow Hocking Technical College to use the Village's fire department facilities as a training laboratory for Hocking Technical College's Fire Science and EMT program for a period of 20 years. If the Village terminates this agreement prior to the agreed upon 20 year time period, the Village must pay back a percentage of the \$750,000 in capital funds.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

11. Jointly Governed Organization

The Village is associated with the New Lexington-Pike Township Union Cemetery, which is defined as a jointly governed organization. The New Lexington-Pike Township Union Cemetery (the Cemetery) Board of Trustees are appointed by the Village and Pike Township. Taxes levied by the Village for cemetery maintenance are collected by the Perry County Auditor, distributed to the Village, 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.

12. Financial Condition

As of December 31, 2012, the Village had a cash-basis deficiency of \$201,574 and \$393,736 in its General Fund and Fire and EMS Fund, respectively. The Village's management is implementing a combination of cost-cutting and receipt-enhancing changes and other changes (as is determined necessary by Village Council) to address these deficits and negative cash-basis changes in fund balances.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

INDEPENDENT AUDITOR'S REPORT

Village of New Lexington
215 South Main Street
New Lexington, Ohio 43764

To Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Village of New Lexington, Perry County, (the Village) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2013, in which it is noted that the Village prepared its financial statements on the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is a basis other than accounting principles generally accepted in the United States of America. We also noted that the Village is experiencing financial difficulties in the General Fund and Fire and EMS Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-001, 2012-002 and 2012-003, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-004 through 2012-009.

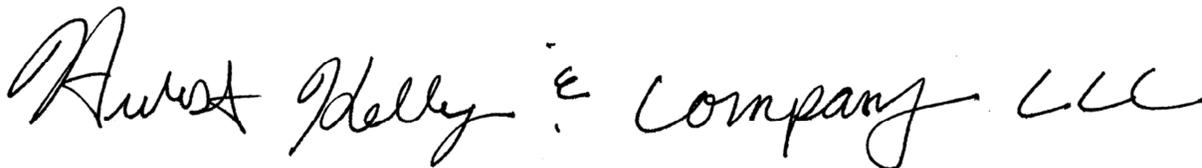
We noted certain matters that we have reported to management of the Village in a separate letter dated October 7, 2013.

Village's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Robert Kelly & Company LLC". The signature is written in a cursive, flowing style.

Loveland, Ohio
October 7, 2013

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-001 – MATERIAL WEAKNESS – MATERIAL AUDIT ADJUSTMENTS

Criteria:

The Village’s financial statements and supporting accounting records, as prepared and maintained by management, should present all activities for which the Village is financially accountable.

Condition:

The following schedule details material audit adjustments that were posted to the Village’s financial statements as a result of audit procedures performed in connection with the Village’s December 31, 2012 audit:

Financial Statement Row	Debit / (Credit)	
	Financial Statement Column	
	Special Revenue	Capital Projects
Intergovernmental	170,139	(170,139)
Capital Outlay	(170,139)	170,139
\$	-	\$ -

Cause:

Material misstatements to the Village’s 2012 financial statements were not prevented or detected and corrected by the Village’s system of internal control.

Effect:

The Village’s December 31, 2012 financial statements, as prepared by management, contained material misstatements.

Recommendation:

The Village should record all transactions and activities for which the Village is financially accountable.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-002 – MATERIAL WEAKNESS – INADEQUATELY IMPLEMENTED SYSTEM OF ACCOUNTING

Criteria:

An adequately implemented system of accounting includes accounting software for which users are adequately trained and for which accounting data can be timely, accurately and efficiently processed and summarized for use by management.

Condition:

The Village's system of accounting, as implemented from January 1, 2012 through August 31, 2012, did not provide management with timely and accurate financial data from which well-informed decisions could be based.

Cause:

The system of accounting was not adequately implemented.

Effect:

Timely and accurate financial information (including cash balances by fund, aggregate outstanding encumbrances by fund and remaining appropriations available for expenditure by fund) was not available to management. Thus management did not have adequate financial information available from which well-informed decisions could be based.

Additionally, extra staff effort was consumed in performing manual reconciliations of accounting system reports to spreadsheets, which still did not allow for real-time financial information (including cash balances by fund, aggregate outstanding encumbrances by fund and remaining appropriations available for expenditure by fund) to be generated and allowed for deficit spending and fund cash deficits to occur (Finding 2012-005 reported deficit cash fund balances at December 31, 2012 in the General Fund and Fire and EMS Fund). Furthermore, the manual reconciliation process increased the potential for errors, omissions and fraud to occur and not be prevented or identified and corrected in a reasonable period of time.

Recommendation:

Management should periodically review and evaluate the implementation of the system of accounting and should modify the system of accounting when timely and accurate financial data is not being produced.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation and transitioned to the UAN Accounting system on September 1, 2012.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

**FINDING NUMBER 2012-003 – MATERIAL WEAKNESS – FAILURE TO ROUTINELY RECONILE
BANK ACCOUNT BALANCES**

Criteria:

A component of effective internal control over cash is the accurate and timely reconciliation of the balances of cash per the Village's financial records to the balances of cash reported by external financial institutions.

Condition:

From January 1, 2012 through August 31, 2012, the Village did not perform monthly reconciliations of the balances of cash per the Village's financial records to the balances of cash reported by external financial institutions.

Cause:

Management did not prepare such reconciliations.

Effect:

The failure to routinely reconcile the balances of cash per the Village's financial records to the balances of cash reported by external financial institutions could result in error, omission, noncompliance with legal and regulatory compliance requirements, or misappropriation of the Village's resources that would not be detected in a timely manner.

Further, various cash receipts (principally a State DTL distribution to the Village) and cash disbursements (principally four monthly OPERS remittances) electronically posting to the Village's bank account were not timely recorded in the Village's accounting system. These cash receipts and cash disbursements were ultimately accumulated and summarized with the assistance of the Village's contract-based financial consultant and were then posted to the Village's financial records, but such posting into the Village's cash basis financial records did not occur until several months after the transactions had electronically posted to the Village's bank account. Accordingly, timely and accurate financial information was not available to management.

Recommendation:

The Village should promptly reconcile the balance of cash at month end and investigate and determine the appropriate accounting treatment for any reconciling items.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-004 – NONCOMPLIANCE – FAILURE TO ESTABLISH A SPECIAL FUND FOR EACH SPECIAL LEVY

Criteria:

Ohio Revised Code Section 5705.09(D) states that, "Each subdivision shall establish...a special fund for each special levy."

Condition:

The Village has two continuous levies related to public safety:

- 1.0 mill fire levy (approved by a vote on May 8, 1984)
- 2.0 mill fire and EMS levy (approved by a vote on November 3, 1987)

Contrary to Ohio Revised Code Section 5705.09(D), the Village has been recording the levy collections of these two separate levies into one fund, the Fire and EMS Fund.

Cause:

The Village was not aware of the requirements of Ohio Revised Code Section 5705.09(D).

Effect:

The Village was not in compliance with the requirements of Ohio Revised Code Section 5705.09(D).

Recommendation:

The Village should establish a fire fund in the books and records of the Village and record the fire levy receipts (and the related fire disbursements) into this fund as required by Ohio Revised Code Section 5705.09(D).

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-005 – NONCOMPLIANCE – DEFICIT CASH FUND BALANCES

Criteria:

Ohio Revised Code Section 5705.10(H) states that, "Money paid into any fund shall be used only for the purposes for which such fund is established."

Condition:

At December 31, 2012, the General Fund and Fire and EMS Special Revenue Fund had deficit cash fund balances of \$201,574 and \$393,736, respectively.

Cause:

The deficit cash fund balances of the General Fund and Fire and EMS Fund are directly related to Finding 2012-002 (system of accounting as implemented does not report real-time fund information), Finding 2012-007 (appropriations in excess of amounts certified as available for expenditure), Finding 2012-008 (expenditures exceeding appropriations) and Finding 2012-009 (failure to properly encumber).

In summary, an inadequately implemented system of accounting coupled with various instances of budgetary noncompliance allowed for the deficit cash fund balances to occur.

Effect:

The Village is not in compliance with Ohio Revised Code Section 5705.10(H) as deficit cash fund balances indicate that money from one fund (a fund with positive cash fund balance), was used to cover the expenses of other funds (the General Fund and Fire and EMS Fund).

Recommendation:

The Village's management should ensure that money from one fund is not used to cover the expenses of another fund and should implement the recommendations associated with Findings 2012-002, 2012-007, 2012-008 and 2012-009.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

VILLAGE OF NEW LEXINGTON
PERRY COUNTY

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012

FINDING NUMBER 2012-006 – NONCOMPLIANCE – FAILURE TO PROPERLY OBTAIN AMENDED CERTIFICATES

Criteria:

Ohio Revised Code Section 5705.36(A)(4) requires that upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the budget commission, and the commission shall certify an amended certificate reflecting the deficiency.

Condition:

Estimated receipts exceeded actual receipts and the deficiency reduced available resources below the level of current appropriations and the fiscal officer did not certify the deficiency or amend the certificate in the following fund as detailed below:

	Estimated Receipts	Actual Receipts	Variance
Street Fund	\$ 178,000	\$ 176,472	\$ (1,528)

Cause:

The Village did not obtain an amended certificate as required by Ohio Revised Code Section 5705.36(A)(4).

Effect:

Failure to properly obtain amended certificates when the amount of a deficiency will reduce available resources below the current level of appropriations can result in overspending and deficit fund balances and is noncompliant with Section 5705.36(A)(4) of the Ohio Revised Code.

Recommendation:

The Village should monitor estimated receipts and actual receipts and obtain amended certificates when required by Ohio Revised Code Section 5705.36(A)(4).

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-007 – NONCOMPLIANCE – APPROPRIATIONS IN EXCESS OF AMOUNTS CERTIFIED AS AVAILABLE FOR EXPENDITURE

Criteria:

Ohio Revised Code Section 5705.39 provides that appropriations for each fund shall not exceed the estimated revenue available for expenditure as certified by the budget commission.

Condition:

The following funds had appropriations in excess of the estimated resources available for expenditure as certified by the budget commission for 2012 as detailed below:

	Estimated Resources	Appropriations	Variance
General Fund	\$ 906,214	\$ 1,315,388	\$ (409,174)
Fire and EMS Fund	248,536	475,578	(227,042)
Street Fund	178,621	183,494	(4,873)

Cause:

The Village appropriated amounts in excess of the estimated resources available for expenditure as certified by the budget commission.

Effect:

Allowing appropriations to exceed amounts certified as available for expenditure can result in overspending and deficit fund balances and is noncompliant with Section 5705.39 of the Ohio Revised Code.

Recommendation:

The Village should routinely compare appropriations to the estimated resources available for expenditure as certified by the budget commission for each fund to ensure compliance with the requirements of Ohio Revised Code Section 5705.39.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-008 – NONCOMPLIANCE – EXPENDITURES IN EXCESS OF APPROPRIATIONS

Criteria:

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

Condition:

The Village had expenditures in excess of appropriations in the following funds:

Fund Name	Budgetary Disbursements	Appropriations	Variance
General Fund	\$ 1,495,508	\$ 1,355,376	\$ (140,132)
Fire and EMS Fund	730,814	478,302	(252,512)
Fire Fund	19,621	-	(19,621)
Cemetery Fund	26,643	24,489	(2,154)
Village Capital Project	170,139	-	(170,139)
Water Fund	1,238,839	1,100,898	(137,941)
Sewer Fund	1,204,114	823,945	(380,169)

Cause:

The Village expended funds in excess of appropriations.

Effect:

Expenditures in excess of appropriations can result in overspending and deficit fund balances and is noncompliant with Section 5705.41(B) of the Ohio Revised Code.

Recommendation:

The Village should routinely compare actual expenditures to current appropriations and should keep actual expenditures below current appropriations and request supplemental appropriations from Council when permissible and needed.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2012**

FINDING NUMBER 2012-009 – NONCOMPLIANCE – FAILURE TO PROPERLY ENCUMBER

Criteria:

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3) of the Ohio Revised Code.

Condition:

During our testing of non-payroll cash disbursements, we noted that for twenty-seven of forty disbursements tested, the Village did not properly certify the availability of funds for the disbursement.

Cause:

For the twenty-seven items noted above, although the Village did use a purchase order, the Village did not obtain a purchase order prior to incurring a commitment as required by Section 5705.41(D)(1) of the Ohio Revised Code.

Effect:

Failure to properly certify the availability of funds can result in overspending and deficit fund balances (and did so with respect to the General Fund and Fire and EMS Fund as reported in Finding 2012-005) and is noncompliant with Section 5705.41(D)(1) of the Ohio Revised Code.

Recommendation:

Unless the Village uses an exception to the standard requirement, purchase orders certified by the fiscal officer should be issued prior to entering into a contract or order involving the expenditure of money.

View of Responsible Officials and Planned Corrective Actions:

We are in agreement with finding and recommendations.

**VILLAGE OF NEW LEXINGTON
PERRY COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-001	Material Weakness – Material Audit Adjustments	No	Reissued as Finding 2012-001
2011-002	Material Weakness – Inadequately Implemented System of Accounting	No	Reissued as Finding 2012-002
2011-003	Significant Deficiency – Review of Timesheets	Yes	Corrected
2011-004	Noncompliance – Failure to Establish a Special Fund for Each Special Levy	No	Reissued as Finding 2012-004
2011-005	Noncompliance – Deficit Cash Fund Balances	No	Reissued as Finding 2012-005
2011-006	Noncompliance – Failure to Properly Obtain Amended Certificates	No	Reissued as Finding 2012-006
2011-007	Noncompliance – Appropriations in Excess of Amounts Certified as Available for Expenditure	No	Reissued as Finding 2012-007
2011-008	Noncompliance – Expenditures in Excess of Appropriations	No	Reissued as Finding 2012-008
2011-009	Noncompliance – Failure to Properly Encumber	No	Reissued as Finding 2012-009

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Dave Yost • Auditor of State

VILLAGE 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
DECEMBER 12, 2013**