

CITY OF NEW LEXINGTON



**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2001**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Mayor and Members of Council
City of New Lexington
New Lexington, OH 43764

We have reviewed the Independent Auditor's Report of the City of New Lexington, Perry County, prepared by Rea & Associates, Inc., for the audit period January 1, 2001 through December 31, 2001. 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 black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

August 21, 2002

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**CITY OF NEW LEXINGTON
PERRY COUNTY**

DECEMBER 31, 2001

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July 10, 2002

Mayor and Members of Council
City of New Lexington
New Lexington, OH 43764

Independent Auditor's Report

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

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

Ohio Administrative Code § 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 City prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, 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, fund equities, 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 cash balances of the City of New Lexington as of December 31, 2001, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we also have issued our report dated July 10, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Rea & Associates, Inc.

CITY OF NEW LEXINGTON
PERRY COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS, AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 2001

CASH AND INVESTMENTS \$ 1,684,695

CASH BALANCES BY FUND TYPE

GOVERNMENT FUNDS:	
General Fund	\$ 70,567
Special Revenue Funds	419,822
Debt Service Fund	18,801
Capital Projects Funds	288,983
PROPRIETARY FUNDS:	
Enterprise Funds	864,815
FIDUCIARY FUNDS:	
Agency Funds	<u>21,707</u>
<i>Total all funds</i>	<u>\$ 1,684,695</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW LEXINGTON
PERRY COUNTY

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

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
RECEIPTS:					
Taxes	\$ 663,844	\$ 97,719	\$ 26,683	\$ 0	\$ 788,246
Intergovernmental revenue	161,611	148,354	3,172	125,000	\$ 438,137
Charges for services	24,717	377,651	0	480	\$ 402,848
Fines, licenses and permits	60,158	533	0	0	\$ 60,691
Miscellaneous	72,390	12,132	0	192,660	\$ 277,182
<i>Total receipts</i>	<u>982,720</u>	<u>636,389</u>	<u>29,855</u>	<u>318,140</u>	<u>1,967,104</u>
DISBURSEMENTS:					
Current:					
Security of persons	621,134	101,913	0	0	723,047
Public health services	20,000	256,228	0	0	276,228
Leisure time activities	86,250	0	0	0	86,250
Transportation	0	146,456	0	0	146,456
General government	269,438	0	0	0	269,438
Capital outlay	8,873	3,913	0	29,157	41,943
Debt Service - Principal	20,643	39,555	10,000	0	70,198
Debt Service - Interest	6,374	8,699	15,340	0	30,413
<i>Total disbursements</i>	<u>1,032,712</u>	<u>556,764</u>	<u>25,340</u>	<u>29,157</u>	<u>1,643,973</u>
<i>Excess of receipts over (under) disbursements</i>	(49,992)	79,625	4,515	288,983	323,131
<i>FUND CASH BALANCES, January 1</i>	<u>120,559</u>	<u>340,197</u>	<u>14,286</u>	<u>0</u>	<u>475,042</u>
<i>FUND CASH BALANCES, December 31</i>	<u>\$ 70,567</u>	<u>\$ 419,822</u>	<u>\$ 18,801</u>	<u>\$ 288,983</u>	<u>\$ 798,173</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW LEXINGTON
PERRY COUNTY

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

	Proprietary	Fiduciary Fund Type	Total
	Enterprise Funds	Agency Funds	(Memorandum Only)
OPERATING RECEIPTS:			
Charges for services	\$ 1,148,700	\$ 0	\$ 1,148,700
Other/Miscellaneous	24,617	21,707	46,324
<i>Total operating receipts</i>	1,173,317	21,707	1,195,024
OPERATING DISBURSEMENTS:			
Personal services	453,132	0	453,132
Travel transportation	9,702	0	9,702
Contractual services	218,227	0	218,227
Material and supplies	184,349	0	184,349
Capital outlay	6,166	0	6,166
Miscellaneous	18,035	0	18,035
<i>Total operating disbursements</i>	889,611	0	889,611
<i>Operating income</i>	283,706	21,707	305,413
NON-OPERATING DISBURSEMENTS:			
Debt service:			
Principal retirement	71,209	0	71,209
Interest and fiscal charges	103,644	0	103,644
<i>Total non-operating disbursements</i>	174,853	0	174,853
<i>Net income before transfers and advances</i>	108,853	21,707	130,560
Transfers-In	233,617	0	233,617
Transfers-Out	(233,617)	0	(233,617)
<i>Net income</i>	108,853	21,707	130,560
<i>FUND BALANCES, January 1</i>	755,962	0	755,962
<i>FUND BALANCES, December 31</i>	\$ 864,815	\$ 21,707	\$ 886,522

The accompanying notes are an integral part of these financial statements

CITY OF NEW LEXINGTON
PERRY COUNTY

COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Fund Types/Funds</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable (Unfavorable)</u>
GOVERNMENTAL FUNDS:			
General Fund	\$ 902,957	\$ 982,720	\$ 79,763
Special Revenue Fund	673,450	636,389	(37,061)
Debt Service Fund	27,750	29,855	2,105
Capital Projects Fund	0	318,140	318,140
PROPRIETARY FUNDS:			
Enterprise Funds	1,468,200	1,406,934	(61,266)
AGENCY FUNDS:			
Holding Fund	0	21,707	21,707
<i>Total all funds</i>	<u>\$ 3,072,357</u>	<u>\$ 3,395,745</u>	<u>\$ 323,388</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW LEXINGTON
PERRY COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Fund Types/Funds</u>	Reserve for Encumbrances as of 12/31/2000	Appropriations Year Ended 12/31/2001	Total	Disbursements for the Year Ended 12/31/2001	Reserve for Encumbrances as of 12/31/2001	Total	Variance Favorable (Unfavorable)
GOVERNMENTAL FUNDS:							
General Fund	\$ 0	\$ 985,483	\$ 985,483	\$ 1,032,712	\$ 1,597	\$ 1,034,309	\$ (48,826)
Special Revenue Fund	0	504,961	504,961	556,764	6,613	563,377	(58,416)
Debt Service Fund	0	7,965	7,965	25,340	0	25,340	(17,375)
Capital Projects Fund	0	125,000	125,000	29,157	7,819	36,976	88,024
PROPRIETARY FUNDS:							
Enterprise Funds	0	1,172,260	1,172,260	1,298,081	14,341	1,312,422	(140,162)
<i>Total all funds</i>	<u>\$ 0</u>	<u>\$ 2,795,669</u>	<u>\$ 2,795,669</u>	<u>\$ 2,942,054</u>	<u>\$ 30,370</u>	<u>\$ 2,972,424</u>	<u>\$ (176,755)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

NOTE 1 – DESCRIPTION OF THE ENTITY

The City of New Lexington (the City) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City is a chartered, home-rule municipality as defined in Title 7 of the Ohio Revised Code. The City operates under a Mayor-Council-Administrator plan of government. An appointed finance director is responsible for the fiscal control of the financial resources of the City. The City provides the following services: public safety (police and fire protection), water, sewer, streets and highways, development, parks and recreation, health and other general governmental services.

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 9.

The New Lexington City School 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 School District nor is the School District fiscally dependent on the City.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the City chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

B. Pooled Cash and Investments

The City Finance Director invests all available funds of the City in interest-bearing checking accounts and certificates of deposit (see Note 3). This cash is pooled for investment purposes to capture the highest rate of return. Income from these investments is distributed according to City policy.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

C. Fund Accounting

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

1. Governmental Fund Types:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract 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.

Special Revenue Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

2. Proprietary Fund Type:

Enterprise Funds

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

3. Fiduciary Fund Type

Agency Fund

The Agency Funds are purely custodial (assets and liabilities) and thus do not involve measurement of results of operations.

D. Budgetary Process

Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the subsequent January 1 to December 31 year.

Estimated Resources

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to December 31, the City must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2001, unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended during the year as new information becomes available. Appropriations may not exceed estimated resources. All funds, other than Agency Funds, are required to be budgeted and appropriated.

Encumbrances

The City is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

E. Property, Plant and Equipment

Fixed assets acquired or constructed for the City are recorded as disbursements. Depreciation is not recorded for these fixed assets.

F. Total Columns on General Purpose Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 two-year period of designation of depositories. Inactive deposits must be either 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 may be deposited or invested in the following securities:

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit, 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;
- c. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations as described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- f. The State Treasury Assets Reserve of Ohio (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

- a. Bonds of the State of Ohio;
- b. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
- c. Obligations of the City.

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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year-end, the carrying amount of the City's deposits was \$1,684,695 and the bank balance was \$1,770,559, \$400,000 of which was covered by federal depository insurance, \$865,487 is collateralized by securities pledged by the financial institution, and \$290 is secured by a collateral pool. \$504,782 is uninsured and uncollateralized.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

NOTE 4 – PROPERTY TAXES

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for the tax year 1996 for Perry County.

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

The full tax rate applied to real property for fiscal year ended December 31, 2001 was \$5.40 per \$1,000 of assessed valuation. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2001 was \$5.40 per \$1,000 of assessed valuation.

Real Property - 2000 Valuation	
Residential/Agricultural	\$ 20,156,500
Commercial/Industrial	10,427,290
Public Utility	21,690
Minerals	630
 Tangible Personal Property - 2001 Valuation	
General	5,075,914
Public Utilities	<u>3,429,660</u>
 Total	 <u>\$ 39,111,684</u>

The Perry County Treasurer collects property tax on behalf of all taxing districts within Perry County. The Perry County Auditor periodically remits to the taxing districts their portion of the taxes collected.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

NOTE 5 – DEBT OBLIGATIONS

Debt outstanding at December 31, 2001 consisted of the following:

	<u>Principal</u>	<u>Interest Rates</u>
Water Detention Structure Mortgage Revenue Bonds	\$ 124,613	3.225%
Sanitary Sewer System Mortgage Revenue Bonds	1,015,000	4.50%
Swimming Pool General Obligation Bonds	250,000	5.90%
Vehicle Acquisition General Obligation Bonds	126,975	5.10%-6.15%
General Obligation Notes	94,355	5.80%-6.35%
Ohio Water Development Authority Loans	1,659,375	2.20%-7.89%
Capital Lease	<u>23,460</u>	7.35%
Total	<u>\$ 3,293,778</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 system improvement issues.

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

General obligation notes are direct obligations of the city for which its full faith, credit and resources are pledged and are 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 fire rescue truck.

The Ohio Water Development Authority loans are payable from user charges assessed for water and sewer services. These loans were used to make water and sewer system improvements.

In 2001 the City entered into loan agreements with the Ohio Public Works Commission for the construction of a sewer pump station in the amount of \$127,604. As of December 31, 2001, none of these proceeds had been disbursed.

The City also entered into a loan agreement with Ohio Water Development Authority in the amount of \$295,000 for the lift station project. As of December 31, 2001, none of these proceeds have been disbursed.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

The annual requirements to amortize debt outstanding as of December 31, 2001, including interest payments of \$2,028,780, are as follows:

Year Ending December 31	Water Mortgage Revenue Bonds	Sewer Mortgage Revenue Bonds	Swimming Pool General Obligation Bonds	Vehicle Acquisition General Obligation Bonds	Total General Obligation Notes	Total OWDA Loans	Total
2002	\$ 13,809	\$ 56,675	\$ 24,750	\$ 48,123	\$ 27,722	\$ 191,624	\$ 362,703
2003	13,809	55,180	29,160	46,652	27,721	191,624	364,146
2004	13,809	56,685	23,275	27,758	27,722	191,624	340,873
2005	13,809	57,145	27,685	17,676	23,527	191,624	331,466
2006	13,809	57,560	21,800	0	0	191,624	284,793
2007-2011	69,045	284,170	131,905	0	0	958,125	1,443,245
2012-2016	11,459	283,450	124,175	0	0	500,913	919,997
2017-2021	0	290,225	0	0	0	0	290,225
Thereafter	<u>0</u>	<u>961,650</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>961,650</u>
Total	<u>\$ 149,549</u>	<u>\$ 2,102,740</u>	<u>\$ 382,750</u>	<u>\$ 140,209</u>	<u>\$ 106,692</u>	<u>\$ 2,417,158</u>	<u>\$ 5,299,098</u>

The following is a schedule of future minimum lease payments under capital lease with the net present value of the minimum lease payments as of December 31, 2001.

	2002	\$ 8,996
	2003	8,997
	2004	<u>8,997</u>
Total minimum lease payments		26,990
Less: Amounts representing interest		<u>3,530</u>
Net present value of minimum lease payments		<u>\$ 23,460</u>

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

NOTE 6 – 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 the year ending December 31, 2001, the City contracted with Gulf Insurance Group for property insurance and boiler and machinery coverage in the amount of \$6,738,180. The policies include a \$250 deductible.

Professional and general liability is protected by the Gulf Insurance Group with a \$5,000,000 single occurrence limit with \$5,000,000 aggregate and no deductible. Vehicles are covered by the Gulf Insurance Group and hold a \$250 deductible for collision. Vehicle liability had a \$5,000,000 combined single limit of liability. Settled claims have not exceeded any aforementioned commercial coverage, nor has insurance coverage been significantly reduced, in any of the past three years.

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

The City provides a 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 \$718.98 for family, \$511.28 for two persons, and \$232.61 for an individual. This insurance provides prescription drug insurance.

Dental coverage is provided through Med Ben. The City pays 100% of the premium for employees. Monthly premiums for this coverage are \$55.52 and \$16.14, respectively, for family and single coverage.

Vision coverage is through VSP. Premiums for family and member plus one coverage are \$17.75. Individual coverage is \$7.84 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 these premiums.

NOTE 7 – PENSION OBLIGATIONS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and amended by state statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

Plan members are required to contribute 8.5% of their annual covered salary. The City is required to contribute 13.55%. The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The City's required contribution to PERS for the year ending December 31, 2001 was \$107,560. 100% has been contributed for 2001.

B. Ohio Police and Fire and 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 statements and required supplementary information for the plan. That report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. The City's contributions to OP&F for the year ending December 31, 2001 were \$47,749. 100% has been contributed for 2001.

NOTE 8 – POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

PERS also provides postemployment health care benefits to age and service retirees thereon with ten (10) or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants, and health care coverage for disability recipients. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care which is considered an Other Postemployment Benefit (OPEB). The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund postretirement health care through their contributions to PERS. Of the 10.84% employer contribution rate for the City, 4.3% was used to fund health care for the year 2001, which amounted to \$34,129. Through the contributions of employers and the investment earnings thereon, the amount allocated to retiree health care is expected to be sufficient to maintain the program indefinitely.

As of December 31, 2000 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11,735.9 million and the number of active contributing participants in OPEB was 411,076.

CITY OF NEW LEXINGTON, OHIO

**Notes to the Financial Statements
December 31, 2001**

B. Ohio Police and Fire Pension Fund

OP&F provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen (18) whether or not the child is attending school or under the age of twenty-two (22) if attending school full-time or on a two-thirds (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 that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24.0% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.25% and 7.5% of covered payroll in 2001 and 2000, respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. The amount of the employer's contribution used to fund postemployment benefits was \$18,365 in 2001. The OP&F total health care expense for the year ending December 31, 2000, the date of the latest actuarial valuation available, was \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 9 – JOINTLY GOVERNED ORGANIZATION

New Lexington-Pike Township Union Cemetery

The New Lexington-Pike Township Union Cemetery (the Cemetery) Board of Trustees are appointed by the City of New Lexington and Pike Township. Taxes levied by the City for cemetery maintenance are collected by Perry County, 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. The financial activity of the Cemetery is not included in the accompanying financial statements. Independent audits of the Cemetery are performed by the Auditor of State. To obtain financial information, write to the New Lexington-Pike Township Union Cemetery, Delinda Lacey, Treasurer, at 440 Swigart Street, New Lexington, Ohio 43764.

NOTE 10 – CONTINGENCIES

Litigation

The City is not a party to any litigation that would have a material effect on their financial position.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 10, 2002

Mayor and Members of Council
City of New Lexington
New Lexington, OH 43764

Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the City of New Lexington (the "City") as of and for the year ended December 31, 2001, and have issued our report thereon dated July 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* as listed in the Schedule of Findings #2001-001 through #2001-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 10, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted an instance 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's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item #2001-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, the reportable condition described above is considered to be a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated July 10, 2002.

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

Rea & Associates, Inc.

CITY OF NEW LEXINGTON
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS
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A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes

2. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Material Noncompliance

FINDING NUMBER	2001 – 001
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Ohio Admin. Code §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 the basis of accounting formerly prescribed or permitted by the Auditor of State, 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 can be fined and various other legal administrative remedies may be taken against the City.

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

CITY OF NEW LEXINGTON
PERRY COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2001

FINDING NUMBER	2001 – 002
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Ohio Rev. Code Section 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated. As of December 30, 2001, expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Expenditures	Variance
General	\$ 985,483	\$ 1,034,309	\$ (48,826)
Street	139,456	144,139	(4,683)
Cemetery	15,107	20,109	(5,002)
Fire/EMS	299,415	385,016	(85,601)
Drug Enforcement	0	2,000	(2,000)
Pool Bond Retirement	7,965	24,340	(16,375)
Water Revenue	492,313	672,577	(180,264)
Sewer Revenue	404,735	465,216	(60,481)
Utility Deposits	3,978	7,837	(3,859)
Meter Replacement	0	32,404	(32,404)

We recommend the City monitor expenditures to ensure they are not exceeding appropriations.

FINDING NUMBER	2001 – 003
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Ohio Rev. Code Sections 135.18 and 135.181 require the treasurer of a subdivision to require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities. The pledged collateral may consist of bonds, notes or other obligations of the United States; or bonds, notes, or other obligations guaranteed or fully insured by the United States or any federal agency, obligations of or fully guaranteed by the federal national mortgage association, federal home loan mortgage corporation, federal farm credit bank, or student loan marketing association, bonds or obligations of this state or any county, township, school district of other legally constituted taxing subdivision of this state, bonds of other states of the United States, shares of qualified no-load money market mutual funds, and a surety bond by a corporate surety licensed by the state. The City had deposits in two banks totaling \$504,782 at December 31, 2001 that were not covered by allowable pledged collateral.

We recommend the City review all deposit accounts and obtain from the depositories a written statement of securities pledged as collateral on a quarterly basis. We further recommend the City discuss the collateral pledged with the depositories and the City's Law Director to ensure the collateral is in accordance with Ohio Rev. Code Section 138.18.

CITY OF NEW LEXINGTON
PERRY COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2001

Material Weaknesses

FINDING NUMBER	2001 – 004
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We noted the financial reporting system currently being used is not working to ensure accurate financial data for the City.

The system is recording revenues and expenditures on an accrual basis, while the City reports on a cash basis. Information used from the system to prepare the financial statements sent to the State Auditor resulted in incorrect fund balances. Significant and time-consuming reviews of all data had to be performed in order to determine the correct revenues and expenditures for each fund. Various reports from the system could not be reconciled without this review. We are not able to reconcile the system's cash report to the bank. However, a manual record is maintained, which is reconciled to the bank.

There is no system's manual to refer to when problems arise, and support from the computer company is also not always available when needed.

We recommend the employees be adequately trained on this system and that sufficient support services be available to meet this need. Each month the totals on all reports need to be reconciled to ensure consistency of data. Detailed transaction reports should be reviewed to determine all entries are made to a valid and proper account. Without this type of consistent and detailed review, the accounting records of the City may not be reliable for financial reporting.

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.

CITY OF NEW LEXINGTON
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-001	A noncompliance citation was issued under Ohio Admin. Code §117-2-03(B), for failing to prepare the City's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: This item is reissued as finding number 2001-001 for 2001.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
SEPTEMBER 3, 2002**