

CITY OF NEW LEXINGTON
ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the City of New Lexington, Perry County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of New Lexington is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

September 19, 2005

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**CITY OF NEW LEXINGTON
PERRY COUNTY**

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

INDEPENDENT AUDITORS' REPORT

Mayor and Members of Council
City of New Lexington
125 South Main Street
New Lexington, Ohio 43764

We have audited the accompanying financial statements of the City of New Lexington, Perry County, Ohio as of and for the year ended December 31, 2004. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03B and ORC 117.38 requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the City prepares its financial statements on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equity, and disclosures that, while material, cannot be determined at this time.

In our opinion, the accompanying financial statements referred to above do not present fairly the financial position, results of operations, and cash flows, where applicable, of the City of New Lexington as of and for the year ended December 31, 2004 in accordance with accounting principles generally accepted in the United States of America.

The City of New Lexington has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2005, on our consideration of the City of New Lexington's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
July 27, 2005

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS, AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 2004**

CASH AND INVESTMENTS	<u>\$ 1,007,716</u>
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CASH BALANCES BY FUND TYPE

GOVERNMENTAL FUNDS:

General Fund	\$ 67,059
Special Revenue Funds	349,709
Debt Service Funds	13,178
Capital Projects Funds	-

PROPRIETARY FUNDS:

Enterprise Funds	<u>577,770</u>
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TOTAL ALL FUNDS	<u><u>\$ 1,007,716</u></u>
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See notes to financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
RECEIPTS:					
Taxes	\$ 645,427	\$ 92,063	\$ 23,573	\$ -	\$ 761,063
Intergovernmental receipts	147,727	450,463	-	-	598,190
Charges for services	41,783	375,263	-	-	417,046
Fines, licenses, and permits	65,749	-	-	-	65,749
Interest income	4,479	-	47	-	4,526
Contributions	42,484	-	-	-	42,484
Miscellaneous	67,111	21,505	-	-	88,616
TOTAL RECEIPTS	<u>1,014,760</u>	<u>939,294</u>	<u>23,620</u>	<u>-</u>	<u>1,977,674</u>
DISBURSEMENTS:					
Current:					
Security of persons	547,728	174,942	-	-	722,670
Public health services	20,000	475,028	-	-	495,028
Leisure time activities	85,155	-	-	-	85,155
Transportation	-	164,988	-	-	164,988
General government	337,742	-	-	-	337,742
Capital outlay	7,839	9,088	-	-	16,927
Debt Service	20,491	44,698	23,762	-	88,951
TOTAL DISBURSEMENTS	<u>1,018,955</u>	<u>868,744</u>	<u>23,762</u>	<u>-</u>	<u>1,911,461</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(4,195)	70,550	(142)	-	66,213
OTHER FINANCING RECEIPTS AND (DISBURSEMENTS)					
Transfer in	100,000	-	-	43,835	143,835
Transfer out	(43,835)	(100,000)	-	-	(143,835)
TOTAL OTHER FINANCING RECEIPTS AND (DISBURSEMENTS)	56,165	(100,000)	-	43,835	-
EXCESS OF CASH RECEIPTS AND OTHER FINANCING RECEIPTS OVER/(UNDER) CASH DISBURSEMENTS AND OTHER FINANCING DISBURSEMENTS	51,970	(29,450)	(142)	43,835	66,213
FUND CASH BALANCE - January 1	<u>15,089</u>	<u>379,159</u>	<u>13,320</u>	<u>(43,835)</u>	<u>363,733</u>
FUND CASH BALANCE - December 31	<u>\$ 67,059</u>	<u>\$ 349,709</u>	<u>\$ 13,178</u>	<u>\$ -</u>	<u>\$ 429,946</u>
Reserve for Encumbrances, December 31	<u>\$ 25,134</u>	<u>\$ 8,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,601</u>

See notes to financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES - ALL PROPRIETARY FUND TYPES
AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Enterprise Funds
OPERATING RECEIPTS:	
Charges for services	\$ 1,505,220
Other/miscellaneous	51,250
TOTAL OPERATING RECEIPTS	1,556,470
 OPERATING DISBURSEMENTS:	
Personal services	564,932
Travel transportation	9,092
Contractual services	329,282
Materials and supplies	171,298
Capital outlay	692,524
Miscellaneous	-
TOTAL OPERATING DISBURSEMENTS	1,767,128
 OPERATING INCOME (LOSS)	 (210,658)
 NON-OPERATING RECEIPTS:	
Transfer in	351,898
Intergovernmental revenues	614,629
Proceeds of loans	134,980
TOTAL NON-OPERATING RECEIPTS	1,101,507
 NON-OPERATING DISBURSEMENTS:	
Transfer out	351,898
Debt Service	322,907
TOTAL NON-OPERATING DISBURSEMENTS	674,805
 NET INCOME(LOSS)	 216,044
 FUND CASH BALANCE - January 1	 361,726
 FUND CASH BALANCE - December 31	 \$ 577,770
 Reserve for Encumbrances, December 31	 \$ 17,365

See notes to financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Fund Types/Funds</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable (Unfavorable)</u>
GOVERNMENTAL FUNDS:			
General Fund	\$ 1,074,297	\$ 1,114,760	\$ 40,463
Special Revenue Funds	827,572	939,294	111,722
Debt Service Fund	25,270	23,620	(1,650)
Capital Project Fund	-	43,835	43,835
PROPRIETARY FUNDS:			
Enterprise Funds	2,517,807	2,657,977	140,170
TOTAL ALL FUNDS	<u>\$ 4,444,946</u>	<u>\$ 4,779,486</u>	<u>\$ 334,540</u>

See notes to financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Fund Types/Funds</u>	<u>2003 Encumbrances</u>	<u>2004 Appropriations</u>	<u>Total Authority</u>	<u>2004 Disbursements</u>	<u>2004 Encumbrances</u>	<u>Total Expenditures</u>	<u>Variance Favorable (Unfavorable)</u>
GOVERNMENTAL FUNDS:							
General Fund	\$ 42,500	\$ 1,071,662	\$ 1,114,162	\$ 1,062,790	\$ 25,134	\$ 1,087,924	\$ 26,238
Special Revenue Funds	21,121	804,293	825,414	968,744	8,467	977,211	(151,797)
Debt Service Fund	-	36,000	36,000	23,762	-	23,762	12,238
Capital Project Fund	-	-	-	-	-	-	-
PROPRIETARY FUNDS:							
Enterprise Funds	37,379	2,582,743	2,620,122	2,441,933	17,365	2,459,298	160,824
TOTAL ALL FUNDS	<u>\$ 101,000</u>	<u>\$ 4,494,698</u>	<u>\$ 4,595,698</u>	<u>\$ 4,497,229</u>	<u>\$ 50,966</u>	<u>\$ 4,548,195</u>	<u>\$ 47,503</u>

See notes to financial statements.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

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, 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. The 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Although required by Ohio Administrative Code Section 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 cash 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.

Pooled Cash and Investments

The City Finance Director invests all available funds of the City in interest-bearing checking accounts and certificates of deposit. 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
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Governmental Funds:

General Fund – The General Fund is the 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 Funds – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principle, 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 the 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 applicable.

Capital Projects Funds – The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds:

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
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proceeding 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, 2003, 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. The legal level of budgetary control is the fund, function, and object level.

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 disbursements 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.

Property, Plant and Equipment

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

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Total Columns on 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.

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 deposits 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. U. S. treasury notes, bills, bonds, or any other obligation or security issued by the U. S. Treasury or any other obligation guaranteed as to principal or interest by the U. S.;
- 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
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

- d. Bonds and 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 monies not required to be used for a period of six months or more in the following: (1) Bonds of the State of Ohio, (2) 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, and (3) 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. Payments 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 \$1,007,716 and the bank balance was \$1,177,001, \$100,000 of which was covered by federal depository insurance, \$1,002,001 is collateralized by securities pledged by the financial institution, and \$75,000 is secured by a collateral pool.

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 2003 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 semiannually, 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, 2004 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.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

4. PROPERTY TAXES (Continued)

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 the tax year 2004 was \$5.40 per \$1,000 of assessed valuation.

Real Property – 2003 Valuation

Residential/Agricultural	\$ 23,866,560
Commercial/Industrial	11,506,730
Public Utility	17,540
Minerals	760

Tangible Personal Property – 2004 Valuation

General	5,281,600
Public Utilities	2,493,990
	<hr/>
Total	\$ 43,167,180

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.

5. DEBT OBLIGATIONS

Debt outstanding at December 31, 2004 consisted of the following:

	<u>Principal</u>	<u>Interest Rates</u>
Water Detention Structure Revenue Bonds	\$ 93,817	3.225%
Sanitary Sewer System Revenue Bonds	981,000	4.50%
Swimming Pool General Obligation Bonds	215,000	5.90%
Vehicle Acquisition G. O. Bonds	16,897	5.10%-6.15%
General Obligation Notes	37,325	5.80%-6.35%
Ohio Water Development Authority Loans	2,458,506	1.50%-7.89%
Ohio Public Works Commission Loans	239,005	1.50%-2.00%
Total	<u>\$ 4,041,550</u>	

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

General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and 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.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

5. DEBT OBLIGATIONS (Continued)

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 2004 the OWDA disbursed \$435,879 for the equalization basin project, the reservoir pumping transfer station, Water Distribution Improvements, and WWTP Improvements. The amount disbursed is included in the debt outstanding above but not in the following amortization.

The Ohio Public Works Commission Loans are for the construction of a sewer pumping station and equalization basin project and wastewater treatment plant project. The equalization basin project and wastewater treatment plant project loan agreement with the OPWC was agreed to in 2002 for a total of \$122,000. In 2004, \$59,467 was disbursed for this loan. It is included in the debt outstanding above and in the amortization schedule that follows.

The annual requirements to amortize debt outstanding as of December 31, 2004, including interest payments of \$841,588, are as follows:

Year Ending December 31	USDA 79-01	USDA 92-07	Swimming Pool Bond Retirement	Total OWDA Loans
2005	\$ 13,809	\$ 57,145	\$ 27,685	\$ 206,037
2006	13,809	57,560	21,800	206,037
2007	13,809	56,930	26,210	206,037
2008	13,809	56,300	25,325	206,037
2009	13,809	56,670	24,440	206,037
Thereafter	52,729	1,648,595	180,105	1,143,428
Total	<u>\$ 121,774</u>	<u>\$ 1,933,200</u>	<u>\$ 305,565</u>	<u>\$ 2,173,613</u>

Year Ending December 31	Total OPWC Loans	Total Vehicle Acquisition Bonds	Total General Obligation Notes	Totals
2005	\$ 12,315	\$ 17,676	\$ 41,949	\$ 376,616
2006	15,204	-	-	314,410
2007	15,204	-	-	318,190
2008	15,204	-	-	316,675
2009	15,204	-	-	316,160
Thereafter	216,230	-	-	3,241,087
Total	<u>\$ 289,361</u>	<u>\$ 17,676</u>	<u>\$ 41,949</u>	<u>\$ 4,883,138</u>

The City entered into a capital lease with Ford Motor Credit in October 2002 for the acquisition of a dump truck with a snowplow and salt spreader. The lease was paid off in 2004.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

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, 2004, the City contracted with Acordia for building and personal property coverage in the amount of \$8,739,713. The policy includes a \$1,000 deductible.

Professional and general liability is protected by the Acordia with a \$1,000,000 single occurrence limit with \$3,000,000 aggregate and no deductible. Vehicles are covered by the Acordia and hold a \$500 deductible for collusion. Vehicle liability had a \$1,000,000 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 of salaries. The 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 \$879.98 for family, \$626.56 for two persons, and \$285.06 for an individual. The insurance provides prescription drug insurance. Dental coverage is also provided through Anthem Blue Cross/Blue Shield. The City pays 100% of the premium for employees. Monthly premiums for this coverage are \$81.07 and \$26.26, respectively for family and single coverage. Vision coverage is through VSP. Premiums for family and member plus one coverage are \$17.89 and \$7.91 for individual coverage monthly. Life insurance coverage is provided through Anthem Life. This provides \$15,000 of coverage for employees. Premiums are \$5.10 per month. The City pays 100% of this premium.

7. PENSION OBLIGATIONS

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 Systems, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

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, 2004 was \$110,917. 100% has been contributed for 2004.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial 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.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

7. PENSION OBLIGATIONS (Continued)

Plan members are required to contribute 10% of their annual covered salary, while the City is required to contribute 19.5% and 24%, respectively, for police officers and firefighters. The City's contributions to OP&F for the year ended December 31, 2004 were 54,527. 100% has been contributed for 2004.

8. POSTEMPLOYMENT BENEFITS

Public Employees Retirement Systems

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 contribution to PERS. Of the 13.55% employer contribution rate for the City, 5.0% was used to fund health care for the year 2004, which amounted to \$40,929. 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, 2003 (the latest information available), the actuarial value of the net assets available for future OPEB payments was 10.5 billion and the number of active contributing participants in OPEB was 369,885.

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 7.75% of covered payroll in 2004. 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 \$21,647 in 2004. The OP&F total health care expense for the year ending December 31, 2003, the date of the latest actuarial valuation available, was \$150,853,148 which was net of member contributions of \$17,207,506. The number of participants eligible to receive health care benefits is 13,662 for Police and 10,474 for Firefighters.

**CITY OF NEW LEXINGTON
PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS**

9. JOINTLY GOVERNED ORGANIZATION

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 statements, write to the New Lexington-Pike Township Union Cemetery, 440 Swigart Street, New Lexington, Ohio 43764.

10. CONTINGENCIES

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

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

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

Mayor and Members of Council
City of New Lexington
125 South Main Street
New Lexington, Ohio 43764

We have audited the financial statements of the City of New Lexington as of and for the year ended December 31, 2004, and have issued our report thereon dated July 27, 2005, wherein we noted the City followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of New Lexington's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted instances involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of New Lexington's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-04 through 2004-06.

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, reportable conditions 2004-04 and 2004-05 described above are considered to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated July 27, 2005.

Compliance

As part of obtaining reasonable assurance about whether the City of New Lexington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2004-01, 2004-02 and 2004-03. We also noted certain immaterial instances of noncompliance which we have reported to management of City of New Lexington in a separate letter dated July 27, 2005.

Report on Internal Control and Compliance
Page 2

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

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
July 27, 2005

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING NUMBER 2004-01

Noncompliance Citation

Ohio Administrative Code 117-2-03(B) and Ohio Revised Code Section 117.38 requires the City of New Lexington to prepare its annual financial statement in accordance with accounting principles generally accepted in the United States of America. However, the City of New Lexington prepared its financial statement on 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 of New Lexington can be fined and various other legal administrative remedies may be taken against the City of New Lexington.

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

Client Response: Client is aware of requirement.

FINDING NUMBER 2004-02

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) prohibits the expenditure of funds unless they have been properly appropriated. As of December 31, 2004, expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Expenditures	Variance
Fire and EMS	\$ 539,715	\$ 719,758	\$ (180,043)
Law Enforcement	750	7,170	(6,420)
FEMA	-	42,648	(42,648)

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

Client Response: Client concurs on finding for 2004. Will review more closely in future.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING 2004-03

Noncompliance Citation

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

Prior certification was not obtained for 67.0% of the expenditures tested.

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

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

Client Response: Client concurs on finding for 2004. Will review more closely in future.

FINDING NUMBER 2004-04

Material Weakness - Financial Reporting

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

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING 2004-04 (Continued)

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

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

FINDING NUMBER 2004-05

Material Weakness - Budgetary Laws and Regulations Process

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

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

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

FINDING NUMBER 2004-06

Material Weakness - Accounting Manual

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

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

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

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2004**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-01	OAC 117-2-03B Not filing report in accordance with GAAP	No	Not Corrected. Cited in current report as finding 2004-01
2003-02	ORC 5705.41(B) Expenditures greater than appropriations	No	Not Corrected. Cited in current report as item 2004-02.
2002-03	Material Weakness Financial Reporting System	No	Not Corrected. Cited in current report as item 2004-04
2003-04	Material Weakness Budgetary Laws	No	Not Corrected. Cited in current report as item 2004-05
2003-05	Material Weakness Expenditure Documentation	Yes	Finding No Longer Valid
2003-06	Material Weakness Accounting Manual	No	Not Corrected. Cited in current report as item 2004-06



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
OCTOBER 4, 2005**