

**CITY OF NEW LEXINGTON**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of New Lexington, Perry County, prepared by Wolf, Wilson & Phillips, Inc., for the audit period January 1, 2007 through December 31, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 4, 2008

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**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**TABLE OF CONTENTS**

| <u>Title</u>  | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report.....   | 1           |
| Management Discussion and Analysis.....   | 2           |
| <b>Government-wide Financial Statements:</b>  |             |
| Statement of Nets Assets Year Ended December 31, 2007.....  | 10          |
| Statement of Activities Year ended December 31, 2007.....   | 11          |
| <b>Fund Financial Statements:</b>   |             |
| <b>Governmental Funds</b>   |             |
| Statement of Modified Cash Basis Assets and Fund Balances, Year Ended December 31, 2007.....  | 12          |
| Statement of Cash Receipts, Disbursements and Changes in Modified Cash Fund Balance<br>Year Ended December 31, 2007.....  | 13          |
| Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances-<br>Budget and Actual (Non-GAAP Budgetary Basis) - General Fund, Year Ended December 31, 2007.....    | 14          |
| Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances-<br>Budget and Actual (Non-GAAP Budgetary Basis) - Fire & EMS Fund, Year Ended December 31, 2007..... | 15          |
| <b>Proprietary Funds</b>  |             |
| Statement of Fund Net Assets-Modified Cash Basis, Year Ended December 31, 2007  | 16          |
| Statement of cash Receipts, Cash Disbursements and Changes in Net Assets-<br>Modified Cash Basis, Year Ended December 31, 2007.....   | 17          |
| <b>Fiduciary Funds</b>  |             |
| Statement of Fiduciary Net Assets-Modified Cash Basis, Year ended December 31, 2007.....  | 18          |
| Notes to the Financial Statements.....  | 19          |
| Independent Auditors' Report on Internal Control Over<br>Financial Reporting and on Compliance and Other Matters<br>Required by Government Auditing Standards.....                | 39          |
| Schedule of Findings.....   | 41          |
| Schedule of Prior Audit Findings.....   | 44          |

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington, Perry County as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position -modified cash basis of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington, Perry County as of December 31, 2007, and the respective changes in financial position-modified cash basis and the respective budgetary comparison for the General Fund and Fire and EMS Fund for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2008, on our consideration of City of New Lexington's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
June 23, 2008

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

The management's discussion and analysis of the City of New Lexington's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007, within the limitation of the City's modified cash basis of accounting. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the modified cash-basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

***Financial Highlights***

Key financial highlights for 2007 are as follows:

- The total net assets of the City decreased \$94,123. Net assets of governmental activities decreased \$970 or 0% from 2007 and net assets of business-type activities decreased \$93,153 or 16% from 2006.
- General cash receipts accounted for \$1,862,120 or 70% of total governmental activities cash receipts. Program specific cash receipts accounted for \$814,693 or 30% of total governmental activities cash receipts. Total governmental activities cash receipts for 2007 were \$2,676,813.
- The City had \$2,677,783 in cash disbursements related to governmental activities; \$814,693 of these cash disbursements was offset by program specific charges for services, grants or contributions. The remaining cash disbursements of the governmental activities of \$1,863,090 were offset by general cash receipts (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$1,862,120.
- The City's major governmental funds are the General fund and the Special Revenue Fire and EMS fund. The general fund had cash receipts of \$2,081,579 and cash disbursements of \$1,970,056. The net increase in fund balance for the general fund was \$111,523 or 134%.
- The Fire & EMS fund had cash receipts of \$341,827 and cash disbursements of \$458,523. The net decrease in fund balance was \$116,696 or 198%.
- The Water Fund had cash receipts \$1,618,141 and cash disbursements of \$1,701,817 in 2007. The net change in net assets was a decrease of \$83,676 or 27%.
- The Sewer Fund had cash receipts of \$840,762 and cash disbursements of \$850,239 in 2007. The net change in net assets was a decrease of \$9,477 or 3%.



**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

***Using the Basic Financial Statements (BFS)***

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

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

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

***Reporting the City as a Whole***

***Statement of Net Assets and the Statement of Activities***

A general question typically asked about the City's finances is "How did we do financially during 2007?" The Statement of Net Assets-Modified Cash Basis and the Statement of Activities-Modified Cash Basis answers this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

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

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

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

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*Reporting the City's Most Significant Funds*

*Fund Financial Statements*

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

*Governmental Funds*

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

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

*Proprietary Funds*

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

*Fiduciary Funds*

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*The City of New Lexington as a Whole*

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

The table below provides a summary of the City's net assets for 2007 and 2006.

|                           | <b>Net Assets</b>          |                             |                            |                             |
|---------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|                           | Governmental<br>Activities | Business-type<br>Activities | Governmental<br>Activities | Business-type<br>Activities |
|                           | <u>2007</u>                | <u>2007</u>                 | <u>2006</u>                | <u>2006</u>                 |
| <u>Assets</u>             |                            |                             |                            |                             |
| Cash and Cash Equivalents | \$ 234,412                 | \$ 492,605                  | \$ 235,382                 | \$ 585,758                  |
| Total assets              | <u>\$ 234,412</u>          | <u>\$ 492,605</u>           | <u>\$ 235,382</u>          | <u>\$ 585,758</u>           |
| <u>Net Assets</u>         |                            |                             |                            |                             |
| Restricted                | 95,883                     | -                           | 132,364                    | -                           |
| Unrestricted              | <u>138,529</u>             | <u>492,605</u>              | <u>103,018</u>             | <u>585,758</u>              |
| Total net assets          | <u>\$ 234,412</u>          | <u>\$ 492,605</u>           | <u>\$ 235,382</u>          | <u>\$ 585,758</u>           |

The total net assets of the City decreased \$94,123. Net assets of governmental activities decreased \$970 or 0% from 2006 and net assets of business-type activities decreased \$93,153 or 16% from 2006.

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**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

The table below provides a summary of changes in the City's net assets for 2007 and 2006.

|                                      | Governmental<br>Activities<br>2007 | Business-type<br>Activities<br>2007 | Governmental<br>Activities<br>2006 | Business-type<br>Activities<br>2006 |
|--------------------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| <b>Cash receipts</b>                 |                                    |                                     |                                    |                                     |
| Program cash receipts:               |                                    |                                     |                                    |                                     |
| Charges for services                 | \$ 608,728                         | \$ 1,496,964                        | \$ 485,836                         | \$ 1,405,184                        |
| Operating grants and contributions   | 205,965                            | -                                   | 239,132                            | -                                   |
| Capital grants and contributions     | -                                  | -                                   | 34,013                             | -                                   |
| <b>Total program cash receipts</b>   | <b>814,693</b>                     | <b>1,496,964</b>                    | <b>758,981</b>                     | <b>1,405,184</b>                    |
| General cash receipts:               |                                    |                                     |                                    |                                     |
| Property taxes                       | 175,458                            | -                                   | 258,535                            | -                                   |
| Income taxes                         | 716,928                            | -                                   | 691,596                            | -                                   |
| Unrestricted grants and entitlements | 128,919                            | -                                   | 96,250                             | -                                   |
| Investment earnings                  | 6,802                              | 1,070                               | 7,345                              | 1,230                               |
| Proceeds of loan                     | -                                  | 476,246                             | -                                  | 112,847                             |
| Note proceeds                        | 651,365                            | -                                   | -                                  | -                                   |
| Donations                            | 43,388                             | -                                   | -                                  | -                                   |
| Miscellaneous                        | 139,260                            | 484,623                             | 144,623                            | 496,773                             |
| <b>Total general cash receipts</b>   | <b>1,862,120</b>                   | <b>961,939</b>                      | <b>1,198,349</b>                   | <b>610,850</b>                      |
| Cash disbursements:                  |                                    |                                     |                                    |                                     |
| General government                   | 541,393                            | -                                   | 635,874                            | -                                   |
| Security of persons and property     | 966,399                            | -                                   | 975,639                            | -                                   |
| Transportation                       | 190,092                            | -                                   | 163,246                            | -                                   |
| Community environment                | 15,675                             | -                                   | 14,204                             | -                                   |
| Leisure time activity                | 85,270                             | -                                   | 83,805                             | -                                   |
| Capital outlay                       | 658,256                            | -                                   | 45,385                             | -                                   |
| Other                                | 166,307                            | -                                   | 105,130                            | -                                   |
| Debt service                         | 54,391                             | -                                   | 39,356                             | -                                   |
| Water                                | -                                  | 1,701,817                           | -                                  | 1,349,133                           |
| Sewer                                | -                                  | 850,239                             | -                                  | 746,366                             |
| <b>Total cash disbursements</b>      | <b>2,677,783</b>                   | <b>2,552,056</b>                    | <b>2,062,639</b>                   | <b>2,095,499</b>                    |
| Change in net assets                 | (970)                              | (93,153)                            | (105,309)                          | (79,465)                            |
| Net assets at beginning of year      | 235,382                            | 585,758                             | 340,691                            | 665,223                             |
| Net assets at end of year            | <b>\$ 234,412</b>                  | <b>\$ 492,605</b>                   | <b>\$ 235,382</b>                  | <b>\$ 585,758</b>                   |

Governmental activities net assets decreased \$970 in 2007. Security of persons and property, which primarily supports the operations of the police and emergency medical services departments, accounted for \$966,399 of the total cash disbursements of the City. General cash receipts totaled \$1,862,120 and amounted to 70% of total cash receipts. General cash receipts primarily consist of property and income tax receipts and note proceeds.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

The Statement of Activities-Modified Cash Basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The City is highly dependent upon property and income taxes as well as charges for services to support its governmental activities.

**Governmental Activities – Program Cash Receipts vs. Total Cash Disbursements**

| <b>Governmental Activities</b>     |                                   |                                 |                                   |                                 |
|------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|                                    | Total Cost of<br>Services<br>2007 | Net Cost of<br>Services<br>2007 | Total Cost of<br>Services<br>2006 | Net Cost of<br>Services<br>2006 |
|                                    | <u>2007</u>                       | <u>2007</u>                     | <u>2006</u>                       | <u>2006</u>                     |
| <b>Program Cash Disbursements:</b> |                                   |                                 |                                   |                                 |
| General government                 | \$ 541,393                        | \$ 413,202                      | \$ 635,874                        | \$ 569,600                      |
| Security of persons and property   | 966,399                           | 505,672                         | 975,639                           | 548,270                         |
| Transportation                     | 190,092                           | (15,873)                        | 163,246                           | (75,886)                        |
| Community environment              | 15,675                            | 12,545                          | 14,204                            | 4,561                           |
| Capital outlay                     | 658,256                           | 658,256                         | 45,385                            | 45,385                          |
| Leisure time activity              | 85,270                            | 68,590                          | 83,805                            | 67,242                          |
| Other                              | 166,307                           | 166,307                         | 105,130                           | 105,130                         |
| Debt service                       | 54,391                            | 54,391                          | 39,356                            | 39,356                          |
|                                    | <u>2,677,783</u>                  | <u>1,863,090</u>                | <u>2,062,639</u>                  | <u>1,303,658</u>                |
| <b>Total</b>                       | <b>\$ 2,677,783</b>               | <b>\$ 1,863,090</b>             | <b>\$ 2,062,639</b>               | <b>\$ 1,303,658</b>             |

***Business-Type Activities***

Business-Type activities include the water and sewer funds. These major funds had program cash receipts of \$1,496,964, general cash receipts of \$961,939 and cash disbursements of \$2,552,056 for 2007.

***Financial Analysis of the Government's Funds***

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*Governmental Funds*

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

The City's governmental funds reported a combined fund cash balance of \$234,412, which is \$970 lower than last year's combined total of \$235,382. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2007 and December 31, 2006, for all major and nonmajor governmental funds.

|                          | Fund Balances<br>12/31/07 | Fund Balances<br>12/31/06 | Increase<br>(Decrease) |
|--------------------------|---------------------------|---------------------------|------------------------|
| Major funds:             |                           |                           |                        |
| General                  | \$ 194,683                | \$ 83,160                 | \$ 111,523             |
| Fire & EMS               | (57,654)                  | 59,042                    | (116,696)              |
| Other governmental funds | 97,383                    | 93,180                    | 4,203                  |
| Total                    | <u>\$ 234,412</u>         | <u>\$ 235,382</u>         | <u>\$ (970)</u>        |

***Budgeting Highlights - General Fund***

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

Budgetary information is presented for the General and Fire & EMS funds. In the General Fund, the actual cash receipts were \$807,345 higher than they were in the final budget and actual cash disbursements were \$697,390 higher than the amount in the final budget.

***Capital Assets and Debt Administration***

*Capital Assets*

The City does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as cash disbursements. The City had capital outlay cash disbursements of \$658,256 in governmental funds and \$473,334 in enterprise funds during 2007.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*Debt Administration*

The City had the following long-term obligations outstanding at December 31, 2007 and 2006:

|                             | Governmental Activities  |              |
|-----------------------------|--------------------------|--------------|
|                             | 2007                     | 2006         |
| General obligation bonds    | \$ 175,000               | \$ 190,000   |
| General obligation notes    | 651,365                  | -            |
| Total long-term obligations | \$ 826,365               | \$ 190,000   |
|                             | Business-Type Activities |              |
|                             | 2007                     | 2006         |
| OPWC loans                  | \$ 245,027               | \$ 250,652   |
| OWDA loans                  | 2,835,433                | 2,617,557    |
| Mortgage revenue bonds      | 1,000,378                | 1,025,845    |
| Total long-term obligations | \$ 4,080,838             | \$ 3,894,054 |

See Note 11 to the basic financial statements for more detail on the City's long-term debt obligations.

**Contacting the City's Financial Management**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2007

|                                       | Governmental<br>Activities | Business - Type<br>Activities | Total      |
|---------------------------------------|----------------------------|-------------------------------|------------|
| <b>Assets</b>                         |                            |                               |            |
| Equity in Pooled Cash and Investments | \$ 234,412                 | \$ 492,605                    | \$ 727,017 |
| <i>Total Assets</i>                   | 234,412                    | 492,605                       | 727,017    |
| <br><b>Net Assets</b>                 |                            |                               |            |
| Restricted for:                       |                            |                               |            |
| Debt Service                          | \$ 40,541                  | \$ -                          | \$ 40,541  |
| Other Purposes                        | 55,342                     | -                             | 55,342     |
| Unrestricted                          | 138,529                    | 492,605                       | 631,134    |
| <i>Total Net Assets</i>               | \$ 234,412                 | \$ 492,605                    | \$ 727,017 |

See accompanying notes to the basic financial statements



**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007

|  | Program Cash Receipts |                                      |  | Net (Cash Disbursements)<br>Cash Receipts and Changes in Net Cash Assets |                             |                    |
|--|-----------------------|--------------------------------------|--|--|-----------------------------|--------------------|
|  | Cash<br>Disbursements | Charges<br>for Services<br>and Sales | Operating<br>Grants and<br>Contributions | Governmental<br>Activities   | Business-Type<br>Activities | Total              |
| <b>Governmental Activities</b>                                 |                       |                                      |  |  |                             |                    |
| General Government   | \$ 541,393            | \$ 128,191                           | \$ -                                     | \$ (413,202)   | \$ -                        | \$ (413,202)       |
| Security of Persons and Property                               | 966,399               | 460,727                              | -  | (505,672)  | -                           | (505,672)          |
| Leisure Time Activities  | 85,270                | 16,680                               | -  | (68,590)   | -                           | (68,590)           |
| Community Environment  | 15,675                | 3,130                                | -  | (12,545)   | -                           | (12,545)           |
| Transportation   | 190,092               | -                                    | 205,965                                  | 15,873   | -                           | 15,873             |
| Capital Outlay   | 658,256               | -                                    | -  | (658,256)  | -                           | (658,256)          |
| Other  | 166,307               | -                                    | -  | (166,307)  | -                           | (166,307)          |
| Debt Service   | 54,391                | -                                    | -  | (54,391)   | -                           | (54,391)           |
| <i>Total Governmental Activities</i>                           | <u>2,677,783</u>      | <u>608,728</u>                       | <u>205,965</u>                           | <u>(1,863,090)</u>   | <u>-</u>                    | <u>(1,863,090)</u> |
| <b>Business Type Activity</b>                                  |                       |                                      |  |  |                             |                    |
| Water  | 1,701,817             | 881,543                              | -  | -  | (820,274)                   | (820,274)          |
| Sewer  | 850,239               | 615,421                              | -  | -  | (234,818)                   | (234,818)          |
| <i>Total Business Type Activities</i>                          | <u>2,552,056</u>      | <u>1,496,964</u>                     | <u>-</u>                                 | <u>-</u>   | <u>(1,055,092)</u>          | <u>(1,055,092)</u> |
| <b>Total</b>   | <u>\$ 5,229,839</u>   | <u>\$ 2,105,692</u>                  | <u>\$ 205,965</u>                        | <u>\$ (1,863,090)</u>  | <u>(1,055,092)</u>          | <u>(2,918,182)</u> |
| <b>General Cash Receipts:</b>                                  |                       |                                      |  |  |                             |                    |
| Property Taxes Levied for:                                     |                       |                                      |  |  |                             |                    |
| General Purposes   |                       |                                      |  | 175,458  | -                           | 175,458            |
| Municipal Income Taxes   |                       |                                      |  | 716,928  | -                           | 716,928            |
| Grants and Entitlements not Restricted<br>to Specific Programs |                       |                                      |  | 128,919  | -                           | 128,919            |
| Proceeds of Loan   |                       |                                      |  | -  | 476,246                     | 476,246            |
| Note Proceeds  |                       |                                      |  | 651,365  | -                           | 651,365            |
| Donations  |                       |                                      |  | 43,388   | -                           | 43,388             |
| Interest   |                       |                                      |  | 6,802  | 1,070                       | 7,872              |
| Miscellaneous  |                       |                                      |  | 139,260  | 484,623                     | 623,883            |
| <i>Total General Receipts</i>                                  |                       |                                      |  | <u>1,862,120</u>   | <u>961,939</u>              | <u>2,824,059</u>   |
| Change in Net Assets   |                       |                                      |  | (970)  | (93,153)                    | (94,123)           |
| <i>Net Assets Beginning of Year</i>                            |                       |                                      |  | <u>235,382</u>   | <u>585,758</u>              | <u>821,140</u>     |
| <i>Net Assets End of Year</i>                                  |                       |                                      |  | <u>\$ 234,412</u>  | <u>\$ 492,605</u>           | <u>\$ 727,017</u>  |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

|                                       | General           | Fire & EMS<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------|-------------------|--------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                         |                   |                    |                                |                                |
| Equity in Pooled Cash and Investments | \$ 194,683        | \$ (57,654)        | \$ 97,383                      | \$ 234,412                     |
| <i>Total Assets</i>                   | <u>\$ 194,683</u> | <u>\$ (57,654)</u> | <u>\$ 97,383</u>               | <u>\$ 234,412</u>              |
| <b>Fund Balances</b>                  |                   |                    |                                |                                |
| Reserved:                             |                   |                    |                                |                                |
| Reserved for Encumbrances             | \$ 10,267         | \$ 785             | \$ 1,500                       | \$ 12,552                      |
| Unreserved Reported in:               |                   |                    |                                |                                |
| General Fund                          | 184,416           | -                  | -                              | 184,416                        |
| Special Revenue Funds                 | -                 | (58,439)           | 55,342                         | (3,097)                        |
| Debt Service Fund                     | -                 | -                  | 40,541                         | 40,541                         |
| <i>Total Fund Balances</i>            | <u>\$ 194,683</u> | <u>\$ (57,654)</u> | <u>\$ 97,383</u>               | <u>\$ 234,412</u>              |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
MODIFIED CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

|   | General           | Fire & EMS<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|--------------------|--------------------------------|--------------------------------|
| <b>Cash Receipts:</b>   |                   |                    |                                |                                |
| Municipal Income Taxes  | \$ 716,928        | \$ -               | \$ -                           | \$ 716,928                     |
| Property and Other Local Taxes  | 61,572            | 76,078             | 37,808                         | 175,458                        |
| Charges for Services  | 332,785           | 210,291            | -                              | 543,076                        |
| Fines, Licenses and Permits   | 33,625            | -                  | 2,662                          | 36,287                         |
| Intergovernmental   | 103,830           | 18,992             | 212,062                        | 334,884                        |
| Interest  | 5,597             | 535                | 670                            | 6,802                          |
| Donations   | 43,388            | -                  | -                              | 43,388                         |
| Other Local Receipts  | 132,489           | 35,931             | 205                            | 168,625                        |
| <i>Total Cash Receipts</i>  | <u>1,430,214</u>  | <u>341,827</u>     | <u>253,407</u>                 | <u>2,025,448</u>               |
| <b>Cash Disbursements:</b>  |                   |                    |                                |                                |
| Current:  |                   |                    |                                |                                |
| General Government  | 541,393           | -                  | -                              | 541,393                        |
| Security of Persons and Property  | 562,092           | 404,307            | -                              | 966,399                        |
| Leisure Time Activities   | 85,270            | -                  | -                              | 85,270                         |
| Community Environment   | 96                | -                  | 15,579                         | 15,675                         |
| Transportation  | -                 | -                  | 190,092                        | 190,092                        |
| Capital Outlay  | 651,365           | -                  | 6,891                          | 658,256                        |
| Other   | 129,840           | 35,468             | 999                            | 166,307                        |
| Debt Service  | -                 | 18,748             | 35,643                         | 54,391                         |
| <i>Total Cash Disbursements</i>   | <u>1,970,056</u>  | <u>458,523</u>     | <u>249,204</u>                 | <u>2,677,783</u>               |
| <i>Excess (Deficiency) of Cash Receipts<br/>Over (Under) Cash Disbursements</i> | <u>(539,842)</u>  | <u>(116,696)</u>   | <u>4,203</u>                   | <u>(652,335)</u>               |
| <b>Other Financing Sources (Uses)</b>   |                   |                    |                                |                                |
| Note Proceeds   | 651,365           | -                  | -                              | 651,365                        |
| <i>Total Other Financing Sources (Uses)</i>                                     | <u>651,365</u>    | <u>-</u>           | <u>-</u>                       | <u>651,365</u>                 |
| <i>Net Change in Fund Balances</i>  | 111,523           | (116,696)          | 4,203                          | (970)                          |
| <i>Fund Balances Beginning of Year</i>  | <u>83,160</u>     | <u>59,042</u>      | <u>93,180</u>                  | <u>235,382</u>                 |
| <i>Fund Balances End of Year</i>  | <u>\$ 194,683</u> | <u>\$ (57,654)</u> | <u>\$ 97,383</u>               | <u>\$ 234,412</u>              |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007

|   | Budgeted Amounts |            | Actual     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|------------|------------|---|
|   | Original         | Final      |            |   |
| <b>Budgetary Basis Receipts:</b>  |                  |            |            |   |
| Municipal Income Taxes  | \$ 638,739       | \$ 638,739 | \$ 716,928 | \$ 78,189   |
| Property and Other Local Taxes  | 54,857           | 54,857     | 61,572     | 6,715   |
| Charges for Services  | 296,491          | 296,491    | 332,785    | 36,294  |
| Fines, Licenses and Permits   | 29,958           | 29,958     | 33,625     | 3,667   |
| Intergovernmental   | 92,506           | 92,506     | 103,830    | 11,324  |
| Interest  | 4,987            | 4,987      | 5,597      | 610   |
| Donations   | 38,656           | 38,656     | 43,388     | 4,732   |
| Other Local Receipts  | 118,040          | 118,040    | 132,489    | 14,449  |
|   | 1,274,234        | 1,274,234  | 1,430,214  | 155,980   |
| <i>Total Budgetary Basis Receipts</i>   |                  |            |            |   |
| <b>Budgetary Basis Disbursements:</b>   |                  |            |            |   |
| Current:  |                  |            |            |   |
| General Government  | 370,500          | 370,500    | 551,560    | (181,060)   |
| Security of Persons and Property  | 568,700          | 568,700    | 562,092    | 6,608   |
| Leisure Time Activities   | 45,500           | 45,500     | 85,270     | (39,770)  |
| Community Environment   | -                | -          | 96         | (96)  |
| Capital Outlay  | -                | 298,133    | 651,365    | (353,232)   |
| Other   | -                | -          | 129,840    | (129,840)   |
|   | 984,700          | 1,282,833  | 1,980,223  | (697,390)   |
| <i>Total Budgetary Basis Disbursements</i>  |                  |            |            |   |
| <i>Excess (Deficiency) of Budgetary Basis Receipts<br/>Over (Under) Budgetary Basis Disbursements</i> | 289,534          | (8,599)    | (550,009)  | (541,410)   |
| <b>Other Financing Sources (Uses)</b>   |                  |            |            |   |
| Loan Proceeds   | -                | -          | 651,365    | 651,365   |
|   | -                | -          | 651,365    | 651,365   |
| <i>Total Other Financing Sources (Uses)</i>   |                  |            |            |   |
| <i>Net Change in Fund Balance</i>   | 289,534          | (8,599)    | 101,356    | 109,955   |
| <i>Fund Balance at Beginning of Year</i>  | 76,346           | 76,346     | 76,346     | -   |
| Prior Year Encumbrances Appropriated  | 6,814            | 6,814      | 6,814      | -   |
| <i>Fund Balance at End of Year</i>  | \$ 372,694       | \$ 74,561  | \$ 184,516 | \$ 109,955  |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
FIRE & EMS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007

|  | <u>Budgeted Amounts</u> |                    |                    | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------------|--------------------|--------------------|---|
|  | <u>Original</u>         | <u>Final</u>       | <u>Actual</u>      |   |
| <b>Budgetary Basis Receipts:</b>           |                         |                    |                    |   |
| Property and Other Local Taxes             | \$ 70,775               | \$ 70,775          | \$ 76,078          | \$ 5,303  |
| Charges for Services                       | 195,633                 | 195,633            | 210,291            | 14,658  |
| Intergovernmental                          | 17,668                  | 17,668             | 18,992             | 1,324   |
| Interest                                   | 498                     | 498                | 535                | 37  |
| Other Local Receipts                       | 33,426                  | 33,426             | 35,931             | 2,505   |
| <i>Total Budgetary Basis Receipts</i>      | <u>318,000</u>          | <u>318,000</u>     | <u>341,827</u>     | <u>23,827</u>   |
| <b>Budgetary Basis Disbursements:</b>      |                         |                    |                    |   |
| Current:                                   |                         |                    |                    |   |
| Security of Persons and Property           | 364,000                 | 410,476            | 405,092            | 5,384   |
| Other                                      | -                       | -                  | 35,468             | (35,468)  |
| Debt Service                               | -                       | 9,374              | 18,748             | (9,374)   |
| <i>Total Budgetary Basis Disbursements</i> | <u>364,000</u>          | <u>419,850</u>     | <u>459,308</u>     | <u>(39,458)</u>   |
| <i>Net Change in Fund Balance</i>          | (46,000)                | (101,850)          | (117,481)          | (15,631)  |
| <i>Fund Balance at Beginning of Year</i>   | 56,398                  | 56,398             | 56,398             | -   |
| Prior Year Encumbrances Appropriated       | <u>2,644</u>            | <u>2,644</u>       | <u>2,644</u>       | <u>-</u>  |
| <i>Fund Balance at End of Year</i>         | <u>\$ 13,042</u>        | <u>\$ (42,808)</u> | <u>\$ (58,439)</u> | <u>\$ (15,631)</u>                                      |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS  
ENTERPRISE FUNDS  
DECEMBER 31, 2007

|                                       | Business-Type Activities - Enterprise Funds |                   |                           |
|---------------------------------------|---|-------------------|---------------------------|
|                                       | Water<br>Fund                               | Sewer<br>Fund     | Total<br>Enterprise Funds |
| <b>Assets:</b>                        |   |                   |                           |
| Equity in Pooled Cash and Investments | \$ 221,486                                  | \$ 271,119        | \$ 492,605                |
| <i>Total Assets</i>                   | <u>\$ 221,486</u>                           | <u>\$ 271,119</u> | <u>\$ 492,605</u>         |
| <b>Net Assets:</b>                    |   |                   |                           |
| Unrestricted                          | \$ 221,486                                  | \$ 271,119        | \$ 492,605                |
| <i>Total Net Assets</i>               | <u>\$ 221,486</u>                           | <u>\$ 271,119</u> | <u>\$ 492,605</u>         |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

|   | Business-Type Activities - Enterprise Funds |                   |                           |
|---|---|-------------------|---------------------------|
|   | Water<br>Fund                               | Sewer<br>Fund     | Total<br>Enterprise Funds |
| <b>Operating Cash Receipts:</b>                               |   |                   |                           |
| Charges for Services  | \$ 881,543                                  | \$ 615,421        | \$ 1,496,964              |
| Other Operating Receipts                                      | 9,751                                       | -                 | 9,751                     |
| <i>Total Operating Cash Receipts</i>                          | <u>891,294</u>                              | <u>615,421</u>    | <u>1,506,715</u>          |
| <b>Operating Disbursements:</b>                               |   |                   |                           |
| Personal Services   | 370,012                                     | 292,426           | 662,438                   |
| Contractual Services  | 136,073                                     | 76,172            | 212,245                   |
| Materials and Supplies  | 231,923                                     | 99,846            | 331,769                   |
| <i>Total Operating Cash Disbursements</i>                     | <u>738,008</u>                              | <u>468,444</u>    | <u>1,206,452</u>          |
| <i>Operating Income</i>                                       | <u>153,286</u>                              | <u>146,977</u>    | <u>300,263</u>            |
| <b>Non-Operating Cash Receipts (Cash Disbursements):</b>      |   |                   |                           |
| Interest  | 535   | 535               | 1,070                     |
| Proceeds of Loan  | 468,414                                     | 7,832             | 476,246                   |
| Debt Service  | (218,531)                                   | (156,694)         | (375,225)                 |
| Capital Outlay  | (465,502)                                   | (7,832)           | (473,334)                 |
| Other Financing Sources                                       | 257,898                                     | 216,974           | 474,872                   |
| Other Financing Uses  | (279,776)                                   | (217,269)         | (497,045)                 |
| <i>Total Non-Operating Cash Receipts (Cash Disbursements)</i> | <u>(236,962)</u>                            | <u>(156,454)</u>  | <u>(393,416)</u>          |
| <i>Change in Net Assets</i>                                   | (83,676)                                    | (9,477)           | (93,153)                  |
| <i>Net Assets at Beginning of Year</i>                        | <u>305,162</u>                              | <u>280,596</u>    | <u>585,758</u>            |
| <i>Net Assets at End of Year</i>                              | <u>\$ 221,486</u>                           | <u>\$ 271,119</u> | <u>\$ 492,605</u>         |

See accompanying notes to the basic financial statements

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUND  
DECEMBER 31, 2007

|                                       | <u>Agency</u>          |
|---------------------------------------|------------------------|
| <b>Cash Assets:</b>                   |                        |
| Equity in Pooled Cash and Investments | <u>\$ 3,769</u>        |
| <i>Total Assets</i>                   | <u><u>\$ 3,769</u></u> |
| <b>Net Assets:</b>                    |                        |
| Unrestricted                          | <u>\$ 3,769</u>        |
| Total Net Assets                      | <u><u>\$ 3,769</u></u> |

See accompanying notes to the basic financial statements



**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 1– REPORTING ENTITY**

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

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

**A. Primary Government**

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

**B. Component Units**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 1 – REPORTING ENTITY** (Continued)

**C. Jointly Governed Organizations**

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

The City is associated with the New Lexington-Pike Township Union Cemetery, which is defined as a jointly governed organization. This organization is presented in Note 14 to the basic financial statements.

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

**B. Fund Accounting**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

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

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

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

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

Proprietary Fund

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2007. Agency funds are purely custodial in nature and are used to account for assets held by the City for individuals and other governments and organizations for building and related permit fees and for compliance with building codes. The City had the following Agency fund:

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

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

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

**D. Budgetary Process**

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

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

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

**E. Cash and Investments**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2007, the City invested in nonnegotiable certificates of deposit which are reported at cost.

Interest earnings are allocated to City funds according to State statutes, the Charter and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2007 was \$5,597.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted. The City did not have any restricted assets during 2007.

**G. Inventory and Prepaid Items**

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

**H. Capital Assets**

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

**I. Interfund Receivables/Payables**

The City reports advances-in and advances-out for interfund loans. The City did not have interfund receivables/payables during 2007.

**J. Accumulated Leave**

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Employer Contributions to Cost-Sharing Pension Plans**

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Long-Term Obligations**

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

**M. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Restricted net assets reported as of December 31, 2007 were not restricted by enabling legislation.

**N. Fund Balance Reserves**

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

**O. Interfund Transactions**

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

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in 2007.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 3 – COMPLIANCE**

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

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

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

|                 |          |
|-----------------|----------|
| General Fund    | \$10,267 |
| Fire & EMS Fund | 785      |

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;



**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

Deposits

***Custodial Credit Risk*** - Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$630,790 of the City's bank balance of \$730,790 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

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

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

The following is a reconciliation of cash and investments to the Statement of Net Assets at December 31, 2007:

|  |                   |
|--|-------------------|
| Carrying amount of City's deposits (summarized above)            | \$ 723,248        |
| Cash and cash equivalents - Statement of Fiduciary<br>Net Assets | <u>(3,769)</u>    |
| Cash and cash equivalents - Statement of Net Assets              | <u>\$ 727,017</u> |

**NOTE 6 - INCOME TAXES**

The City levies a 1% income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1% must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration. Income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2007, the receipts were allocated to the general fund in the amount of \$716,928.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 7 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of 2007 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of the appraised value. 2007 real property taxes are collected in and intended to finance 2008.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2007. Tangible personal property assessments for machinery and equipment were 25 percent of true value and 23 percent of true value of inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

Real property taxes are payable annually and semi-annually. 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. Under certain circumstances, State statute permits later payment dates to be established. For 2007, the due dates were February 19 and July 15.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

**NOTE 8 – RISK MANAGEMENT**

**A. Risk Membership Pool**

The City is exposed to various risks of property and casualty losses, and injuries to employees and also insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2007 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2007, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE 8 – RISK MANAGEMENT (Continued)**

Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP’s retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2007) or \$3,000,000 (for claims on or after January 1, 2007) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2006, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members’ total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$1,901,127.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006 (the latest information available):

| <u>Casualty Coverage</u> | <u>2007</u>         | <u>2006</u>         |
|--------------------------|---------------------|---------------------|
| Assets                   | \$30,997,868        | \$29,719,675        |
| Liabilities              | (15,875,741)        | (15,994,168)        |
| Retained earnings        | <u>\$15,122,127</u> | <u>\$13,725,507</u> |

| <u>Property Coverage</u> | <u>2007</u>        | <u>2006</u>        |
|--------------------------|--------------------|--------------------|
| Assets                   | \$5,125,326        | \$4,443,332        |
| Liabilities              | (863,163)          | (1,068,245)        |
| Retained earnings        | <u>\$4,262,163</u> | <u>\$3,375,087</u> |

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 8 – RISK MANAGEMENT (Continued)**

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$92,934. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph below.

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

| <u>Contributions to PEP</u> |          |
|-----------------------------|----------|
| 2005                        | \$44,322 |
| 2006                        | \$46,028 |
| 2007                        | \$46,467 |

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

**B. Health Insurance**

The City provides comprehensive health insurance plan with Anthem Blue Cross/Blue Shield for all eligible employees. The City pays 100% of all premiums. The monthly premium for this coverage is \$862.54 for family, \$614.14 for two persons, and \$279.41 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 \$17.89 and \$7.91, respectively for family and single coverage. Vision coverage is through VSP. Premiums for family and member plus one coverage are \$98.79 and \$28.26 for individual coverage monthly. Life insurance coverage is provided through Anthem Life. This provides \$15,000 of coverage for employees. Premiums are \$5.55 per month. The City pays 100% of this premium.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 9 – DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

*Plan Description* – All employees of the City are eligible to participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans; the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio revised Code. OPERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

*Funding Policy* – The City and covered employees contribute at actuarially determined rates for 2007, 13.85% and 9.5%, respectively, of covered employee payroll to OPERS. The City's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$121,494, \$123,934, and \$118,395, respectively. Required contributions are equal to 100% of the dollar amount billed.

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.5% for police officers. The portion of the City's contributions to fund pension obligations was 12.75% for police officers. The City's required contributions to OP&FP for police officers was \$51,374 and for the year ended December 31, 2007, \$50,609 and \$54,526 for the year ended December 31, 2006 and 2005, respectively. The full amount has been contributed through 2007.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 10 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit, and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available under OPERS. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB). The portion of employer contributions, for all employers, allocated to health care was 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS.

Employer contributions are advance-funded on an actuarially determined basis and are determined by state statute. The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2007 actuarial valuation was 362,130.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2007 (latest actuarial review). An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actual gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2007 was 6.5 percent.

OPERS (assuming the number of active employees remains constant) assumes an annual increase of 4.00% compounded annually for the base portion of an individual's pay increase. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 5% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase 4% (the projected wage inflation rate).

As of December 31, 2007, the audited estimated net assets available for OPEB were \$12 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Fund (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2006 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2007, January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

The health care coverage provided by OP&FP is considered an Other Post-employment Benefit as described in GASB Statement No. 12, “Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers”. The Ohio Revised Code provides the authority allowing the OP&FP’s Board of Trustees to provide health care coverage and states that health care costs paid from the funds of OP&FP shall be included in the employer’s contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll employer contribution, of which 6.75% of covered payroll was applied to the post-employment health care program during 2007. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City’s actual contributions for 2007 that were used to fund post-employment benefits were \$3,468 for police officers. The OP&FP’s total health care expense for the year ended December 31, 2007 (the latest information available) was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2007 (the latest information available), was 14,120 for police officers.

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**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE 11 – DEBT**

The City’s long-term debt activity for the year ended December 31, 2007, was as follows:

|  | Interest<br>Rate | Balance<br>December 31,<br>2007 | Additions        | Reductions         | Balance<br>December 31,<br>2007 | Due Within<br>One Year |
|--|------------------|---------------------------------|------------------|--------------------|---------------------------------|------------------------|
| <u>Governmental Activities</u>             |                  |                                 |                  |                    |                                 |                        |
| Swimming Pool G.O. Bonds                   | 5.9%             | \$190,000                       | \$ 0             | (\$ 15,000)        | \$ 175,000                      | \$ 15,000              |
| Municipal Building Note                    | 4.5%             | 0                               | 651,365          | 0                  | 651,365                         | 0                      |
| Total Governmental Activities              |                  | <u>\$190,000</u>                | <u>\$651,365</u> | <u>(\$ 15,000)</u> | <u>\$ 826,365</u>               | <u>\$ 15,000</u>       |
| <u>Business-Type Activities</u>            |                  |                                 |                  |                    |                                 |                        |
| Water Detention Structure<br>Revenue Bonds | 3.225%           | \$ 71,845                       | \$ 0             | (\$ 11,467)        | \$ 60,378                       | \$ 11,855              |
| Sanitary Sewer System Revenue<br>Bonds     | 4.5%             | 954,000                         | 0                | (14,000)           | 940,000                         | 14,000                 |
| Ohio Water Development Authority<br>Loans  | 1.5%-<br>7.89%   | 2,617,557                       | 476,246          | (258,370)          | 2,835,433                       | 0                      |
| Ohio Public Works Commission<br>Loan       | 1.5%-2%          | 250,652                         | 0                | (5,625)            | 245,027                         | 0                      |
| Total Business-Type Activities             |                  | <u>\$3,894,054</u>              | <u>\$476,246</u> | <u>(\$289,462)</u> | <u>\$4,080,838</u>              | <u>\$25,855</u>        |

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

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

General obligation notes are direct obligations of the City for which its full faith, credit and resources are pledged and payable from taxes levied on all property in the City. During 2007, the City issued \$651,365 in general obligation notes at 4.5% payable over 20 years, with final payment on or before April 4, 2028. The total credit line on this note is \$1,000,000. An amortization schedule has not been prepared for this project due to the remaining credit available to the City. Once this item is finalized, full amortization schedules will be presented accordingly.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE 11 – DEBT** (Continued)

The Ohio Water Development Authority (OWDA) Loans are payable from user charges assessed for water and sewer services. These loans were used to make water and sewer system improvements. During 2007, OWDA disbursed \$475,246 for Equalization Basin, Reservoir Pumping Transfer Station, Water Distribution and Treatment Plant Improvements, Wastewater Treatment Plant Improvement, Water Treatment Plant Design, and Water Storage Tank Replacement projects. Amortization schedules have not been prepared for all projects due to OWDA not finalizing financing terms and repayment arrangements. Once these items are finalized, full amortization schedules will be presented accordingly.

The Ohio Public Works Commission (OPWC) Loans are for the construction of a sewer pumping station and equalization basin project and wastewater treatment plant. The equalization basin project and wastewater treatment plant project loan agreement with the OPWC was financed in 2002 for a total of \$122,000. In 2006, the OPWC disbursed \$27,439 for the wastewater treatment plant and lagoon project.

The following is a summary of the City’s future annual debt service requirements at December 31, 2007:

| Year        | USDA 79-01      |                | USDA 92-07       |                  | Swimming Pool Bond Retirement |                 |
|-------------|-----------------|----------------|------------------|------------------|-------------------------------|-----------------|
|             | Principal       | Interest       | Principal        | Interest         | Principal                     | Interest        |
| 2008        | \$11,855        | \$1,954        | \$ 14,000        | \$ 42,300        | \$ 15,000                     | \$10,325        |
| 2009        | 12,236          | 1,572          | 15,000           | 41,670           | 15,000                        | 9,440           |
| 2010        | 12,631          | 1,178          | 16,000           | 40,995           | 20,000                        | 8,555           |
| 2011        | 13,038          | 770            | 17,000           | 40,275           | 20,000                        | 7,375           |
| 2012        | 10,618          | 350            | 17,000           | 39,510           | 20,000                        | 6,195           |
| 2013 – 2017 | 0               | 0              | 99,000           | 185,220          | 85,000                        | 12,980          |
| 2018 – 2022 | 0               | 0              | 123,000          | 160,785          | 0                             | 0               |
| 2023 – 2027 | 0               | 0              | 154,000          | 130,410          | 0                             | 0               |
| 2028 – 2032 | 0               | 0              | 192,000          | 92,610           | 0                             | 0               |
| 2033 – 2037 | 0               | 0              | 239,000          | 45,360           | 0                             | 0               |
| 2038 – 2042 | 0               | 0              | 54,000           | 2,430            | 0                             | 0               |
| Totals      | <u>\$60,378</u> | <u>\$5,824</u> | <u>\$940,000</u> | <u>\$821,565</u> | <u>\$175,000</u>              | <u>\$54,870</u> |

| Year        | Total OWDA         |                  | Total OPWC       |                 |
|-------------|--------------------|------------------|------------------|-----------------|
|             | Principal          | Interest         | Principal        | Interest        |
| 2008        | \$ 160,585         | \$ 79,334        | \$ 12,034        | \$ 4,840        |
| 2009        | 168,498            | 71,422           | 12,275           | 4,598           |
| 2010        | 176,935            | 62,984           | 12,522           | 4,351           |
| 2011        | 185,936            | 53,984           | 12,775           | 4,100           |
| 2012        | 195,544            | 44,372           | 13,092           | 3,782           |
| 2013 – 2017 | 447,932            | 77,329           | 69,524           | 14,852          |
| 2018 – 2022 | 198,169            | 49,799           | 79,889           | 7,578           |
| 2023 – 2027 | 210,738            | 30,719           | 32,916           | 1,452           |
| 2028 – 2032 | 136,772            | 13,851           | 0                | 0               |
| 2033 – 2037 | 77,886             | 2,461            | 0                | 0               |
| Totals      | <u>\$1,958,995</u> | <u>\$486,255</u> | <u>\$245,027</u> | <u>\$45,553</u> |

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 12 – LEASES**

The City has entered into capitalized leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The following summarize the City’s capital lease activity for 2007:

The City entered into a lease-purchase agreement in the amount of \$17,121 for new computer software. Total principal and interest is \$9,103 with the final payment occurring in 2007.

The City entered into a lease-purchase agreement in the amount of \$79,262 for a new 2007 international dump truck. Total principal and interest is \$42,432 with the final payment occurring in 2008.

The City entered into a lease-purchase agreement in the amount of \$52,322 for a new 2006 Pierce Engine Pumper. Total principal and interest is \$37,496 with the final payment occurring in 2008.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2007:

|                                      | <u>Year Ending December 31,</u> | <u>Amount</u>   |
|--------------------------------------|---------------------------------|-----------------|
| 2008                                 |                                 | <u>32,841</u>   |
| Total Minimum Lease Payments         |                                 | 32,841          |
| Less: Amount Representing Interest   |                                 | <u>(868)</u>    |
| Present Value Minimum Lease Payments |                                 | <u>\$31,973</u> |

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

**NOTE 13 – CONTINGENT LIABILITIES**

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

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

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS**

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

**NOTE 15 - COMPLIANCE AND ACCOUNTABILITY**

Ohio Revised Code Section 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated. As of December 31, 2007, expenditures exceeded appropriations in the following funds:

| Fund            | Appropriations | Expenditures | Variance     |
|-----------------|----------------|--------------|--------------|
| General         | \$ 1,282,833   | \$ 1,980,223 | \$ (697,390) |
| Fire & EMS Fund | 419,850        | 459,308      | (39,458)     |
| Street          | 212,940        | 224,338      | (11,398)     |
| Cemetery        | 15,000         | 15,289       | (289)        |
| Water           | 789,699        | 1,009,232    | (219,533)    |
| Water Bond      | 201,166        | 202,108      | (942)        |
| Sewer           | 553,712        | 722,662      | (168,950)    |

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2008, wherein we noted the City has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of New Lexington's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement. We consider the following deficiencies to be significant deficiencies in internal control.

Finding numbers 2007-03 through 2007-05 in the Schedule of Findings are considered to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented by the City's internal control. We believe that Findings 2007-03 and 2007-04 are material weaknesses. Also, we noted certain matters that we have reported to management in a separate letter dated June 23, 2008.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of New Lexington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as items 2007-01 and 2007-02. We also noted certain immaterial instances of noncompliance, which we have reported to management of City of New Lexington in a separate letter dated June 23, 2008.

The City of New Lexington's responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit the City of New Lexington's response and, accordingly, we express no opinion on it.

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

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
June 23, 2008

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007**

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

**FINDING NUMBER 2007-01**

**Noncompliance Citation**

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

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

Client Response: Client is aware of requirement. Cost is a factor in preparing full GAAP statements.

**FINDING NUMBER 2007-02**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated. As of December 31, 2007, expenditures exceeded appropriations in the following funds:

| Fund            | Appropriations | Expenditures | Variance     |
|-----------------|----------------|--------------|--------------|
| General         | \$ 1,282,833   | \$ 1,980,223 | \$ (697,390) |
| Fire & EMS Fund | 419,850        | 459,308      | (39,458)     |
| Street          | 212,940        | 224,338      | (11,398)     |
| Cemetery        | 15,000         | 15,289       | (289)        |
| Water           | 789,699        | 1,009,232    | (219,533)    |
| Water Bond      | 201,166        | 202,108      | (942)        |
| Sewer           | 553,712        | 722,662      | (168,950)    |

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

Client Response: Client concurs on finding for 2007. Will review more closely in future.

**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007**

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

**FINDING NUMBER 2007-03**

**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.

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 2007-04**

**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.



**CITY OF NEW LEXINGTON  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007**

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

**FINDING NUMBER 2007-05**

**Significant Deficiency - 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, 2007**

| Finding Number | Finding Summary   | Fully Corrected | Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid;<br><b>Explain:</b> |
|----------------|---|-----------------|--|
| 2006-01        | OAC 117-2-03B<br>Not filing report in accordance with GAAP  | No              | Not Corrected. Cited in current report as finding 2007-01  |
| 2006-02        | ORC 5705.41(B)<br>Expenditures greater than appropriations  | No              | Not Corrected. Cited in current report as item 2007-02.  |
| 2006-03        | ORC 5705.41(D)<br>Invoice dated prior to fiscal certificate | Yes             | Finding No Longer Valid.   |
| 2006-04        | Material Weakness<br>Financial Reporting                    | No              | Not Corrected. Cited in current report as item 2007-03   |
| 2006-05        | Material Weakness<br>Budgetary Laws                         | No              | Not Corrected. Cited in current report as item 2007-04   |
| 2006-06        | Accounting Manual   | No              | Not Corrected. Cited in current report as item 2007-05   |



**Mary Taylor, CPA**  
Auditor of State

**CITY OF NEW LEXINGTON**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 14, 2008**