

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

CASH BASIS FINANCIAL STATEMENTS

December 31, 2010



Dave Yost • Auditor of State

Members of Council
City of New Lexington
215 South Main Street
New Lexington, Ohio 43764

We have reviewed the *Independent Auditors'* Report of the City of New Lexington, Perry County, prepared by Hurst, Kelly & Company LLC, for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 19, 2012

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CITY OF NEW LEXINGTON
PERRY COUNTY

December 31, 2010

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INDEPENDENT AUDITORS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the 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, 2010, 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2 to the basic financial statements, the City prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Lexington, Perry County, as of December 31, 2010, and the respective changes in financial position – cash basis for the year then ended in conformity with the basis of accounting described in Note 2.

As discussed in Note 14 to the basic financial statements, the City has deficit cash fund balances in the General Fund and Fire and EMS Fund. The cash basis financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012 on our consideration of the City of New Lexington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 33 through 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Arthur Gelley & Company LLC

Mason, Ohio
February 13, 2012

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(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, 2010, within the limitation of the City's cash basis of accounting. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- The total net assets of the City increased \$100,772. Net assets of governmental activities decreased \$108,011 or 66% from 2009 and net assets of business-type activities increased \$208,783 or 38% from 2009.
- General cash receipts accounted for \$1,864,942 or 55% of total governmental activities cash receipts. Program specific cash receipts accounted for \$1,502,225 or 45% of total governmental activities cash receipts. Total governmental activities cash receipts for 2010 were \$3,367,167.
- The City had \$3,475,178 in cash disbursements related to governmental activities; \$1,502,225 of these cash disbursements were offset by program specific charges for services, grants and contributions. The remaining cash disbursements of the governmental activities of \$1,972,953 were offset by general cash receipts (primarily property taxes, income taxes, unrestricted grants and entitlements and proceeds of notes) of \$1,864,942.
- The City's major governmental funds are the General Fund, the Fire and EMS Special Revenue Fund, and Pool Improvement Bond Capital Project Fund. The General Fund had cash receipts and other financing sources of \$2,610,133 and cash disbursements of \$2,711,424. The net decrease in fund balance for the General Fund was \$101,291.
- The Fire and EMS Fund had cash receipts of \$433,580 and cash disbursements of \$449,779. The net decrease in fund balance was \$16,219.
- The Pool Improvement Bond Fund had cash receipts of \$27,111 and cash disbursements of \$29,400. The net decrease in fund balance was \$2,289 or 4%.
- The Water Fund had cash receipts \$1,273,661 and cash disbursements of \$1,123,856 in 2010. The net change in net assets was an increase of \$149,805 or 60%.
- The Sewer Fund had cash receipts of \$926,071 and cash disbursements of \$867,093 in 2010. The net change in net assets was an increase of \$58,978 or 20%.

Using the Basic Financial Statements

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

The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis provide information about the cash activities of the City as a whole, presenting an aggregate view of the City's cash basis finances. Fund financial statements provide the next level of detail. The fund financial statements look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

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

Reporting the City as a Whole

Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis

A general question typically asked about the City's finances is "How did we do financially during 2010?" The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis answer this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

These two statements report the City's net assets and changes in those assets on a 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 – Cash Basis and Statement of Activities – 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 receipts including federal and state grants and other shared receipts.

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Governmental Funds

Most of the City's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The City's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The City's major governmental funds are the General Fund, Fire and EMS Fund, and Pool Improvement Bond Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the government-wide statements.

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has two enterprise funds, the Water Fund and Sewer Fund, which are used to account for its water and sewer functions.

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. However, this fund had a zero balance at December 31, 2010.

The City of New Lexington as a Whole

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

The table below provides a summary of the City's net assets for 2010 and 2009.

	Net Assets			
	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Assets:				
Cash and cash equivalents	\$55,421	\$163,432	\$759,654	\$550,871
Total assets	<u>\$55,421</u>	<u>\$163,432</u>	<u>\$759,654</u>	<u>\$550,871</u>
Net assets:				
Restricted	\$138,217	\$116,785	\$0	\$0
Unrestricted (deficit)	(82,796)	46,647	759,654	550,871
Total net assets	<u>\$55,421</u>	<u>\$163,432</u>	<u>\$759,654</u>	<u>\$550,871</u>

The total net assets of the City increased \$100,772. Net assets of governmental activities decreased \$108,011 or 66% from 2009 and net assets of business-type activities increased \$208,783 or 38% from 2009.

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

The table below provides a summary of changes in the City's net assets for 2010 and 2009.

	Change in Net Assets			
	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Cash receipts:				
Program cash receipts:				
Charges for services and sales	\$559,140	\$525,671	\$1,877,754	\$1,880,913
Operating grants and contributions	193,085	181,413	0	0
Capital grants and contributions	750,000	525,000	101,837	0
Total program cash receipts	1,502,225	1,232,084	1,979,591	1,880,913
General cash receipts:				
Property taxes	252,471	259,500	0	0
Income taxes	748,857	719,850	0	0
Other local taxes	64,403	0	0	0
Unrestricted grants and entitlements	128,510	342,925	0	0
Proceeds from loans	0	0	208,662	117,457
Proceeds from notes	600,000	619,034	0	0
Interest	3,884	2,140	400	646
Miscellaneous	66,817	162,646	11,079	318,261
Total general cash receipts	1,864,942	2,106,095	220,141	436,364
Total cash receipts	3,367,167	3,338,179	2,199,732	2,317,277
Cash disbursements:				
General government	565,687	721,770	0	0
Security of persons and property	1,089,823	1,431,092	0	0
Leisure time activities	59,654	78,600	0	0
Health	31,232	0	0	0
Transportation	253,323	184,370	0	0
Community environment	0	15,768	0	0
Other	0	56,336	0	0
Capital outlay	1,352,500	619,034	0	0
Debt service:				
Principal	55,810	49,052	0	0
Interest and fiscal charges	67,149	30,560	0	0
Water	0	0	1,123,856	1,452,424
Sewer	0	0	867,093	771,153
Total cash disbursements	3,475,178	3,186,582	1,990,949	2,223,577
Change in net assets	(108,011)	151,597	208,783	93,700
Net assets, beginning of year	163,432	11,835	550,871	457,171
Net assets, end of year	\$55,421	\$163,432	\$759,654	\$550,871

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Governmental activities net assets decreased \$108,011 in 2010. Security of persons and property, which primarily supports the operations of the police, fire, and emergency medical services departments, accounted for \$1,089,823 of the total cash disbursements of the City. General cash receipts totaled \$1,864,942 and amounted to 55% of total cash receipts. General cash receipts primarily consist of property and income tax receipts, unrestricted grants and entitlements and note proceeds.

The Statement of Activities – Cash Basis shows the cost of program services and the charges for services and grants and contributions 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 receipts and unrestricted grants and entitlements. The City is highly dependent upon property and income taxes as well as charges for services to support its governmental activities.

Program Cash Receipts vs. Total Cash Disbursements

	Total Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2010	Net Cost of Services 2009
Program cash disbursements:				
General government	\$565,687	\$721,770	\$486,993	\$633,348
Security of persons and property	1,089,823	1,431,092	636,292	481,980
Leisure time activity	59,654	78,600	49,577	65,463
Health	31,232	0	14,394	0
Transportation	253,323	184,370	60,238	2,957
Community environment	0	15,768	0	15,768
Other	0	56,336	0	56,336
Capital outlay	1,352,500	619,034	602,500	619,034
Debt service:				
Principal	55,810	49,052	55,810	49,052
Interest and fiscal charges	67,149	30,560	67,149	30,560
Total	\$3,475,178	\$3,186,582	\$1,972,953	\$1,954,498

Business-Type Activities

Business-type activities include the water and sewer funds. These major funds had program cash receipts of \$1,979,591, general cash receipts of \$220,141 and cash disbursements of \$1,990,949 for 2010.

Financial Analysis of the City's Funds

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

Governmental Funds

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

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

The City's governmental funds reported a combined fund cash balance of \$55,421, which is \$108,011 lower than last year's combined total of \$163,432. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2010 and 2009, for all major and nonmajor governmental funds.

	Fund Balances (Deficits) 12/31/10	Fund Balances (Deficits) 12/31/09	Increase (Decrease)
Major funds:			
General	(\$51,597)	\$49,694	(\$101,291)
Fire and EMS	(31,199)	(14,980)	(16,219)
Pool Improvement Bond	51,178	53,467	(2,289)
Other governmental funds	87,039	75,251	11,788
Total	\$55,421	\$163,432	(\$108,011)

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 receipts 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 receipts are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the General Fund and Fire and EMS Fund. In the General Fund, the actual cash receipts and other financing sources were \$1,281,800 higher than they were in the final budget and actual cash disbursements were \$1,407,857 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 \$1,352,500 in governmental funds and \$310,916 in enterprise funds during 2010.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2010 and 2009:

	Governmental Activities	
	2010	2009
General obligation bonds	\$125,000	\$145,000
General obligation notes	1,845,307	1,281,117
Total long-term obligations	\$1,970,307	\$1,426,117

City of New Lexington
Perry County
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

	Business-Type Activities	
	2010	2009
Mortgage revenue bonds	\$918,819	\$947,286
OWDA loans	3,223,904	3,445,205
OPWC loans	450,809	261,890
Total long-term obligations	<u>\$4,593,532</u>	<u>\$4,654,381</u>

See Note 10 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 citizens, taxpayers, 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 - Cash Basis
As of December 31, 2010

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$55,421	\$759,654	\$815,075
<i>Total Assets</i>	55,421	759,654	815,075
Net Assets:			
Restricted for:			
Debt Service	66,101	0	66,101
Other Purposes	72,116	0	72,116
Unrestricted (Deficit)	(82,796)	759,654	676,858
<i>Total Net Assets</i>	\$55,421	\$759,654	\$815,075

See accompanying notes to the basic financial statements

City of New Lexington
Perry County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2010

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$565,687	\$78,694	\$0	\$0	(\$486,993)	\$0	(\$486,993)
Security of Persons and Property	1,089,823	453,531	0	0	(636,292)	0	(636,292)
Leisure Time Activities	59,654	10,077	0	0	(49,577)	0	(49,577)
Health	31,232	16,838	0	0	(14,394)	0	(14,394)
Transportation	253,323	0	193,085	0	(60,238)	0	(60,238)
Capital Outlay	1,352,500	0	0	750,000	(602,500)	0	(602,500)
Debt Service:							
Principal	55,810	0	0	0	(55,810)	0	(55,810)
Interest and Fiscal Charges	67,149	0	0	0	(67,149)	0	(67,149)
<i>Total Governmental Activities</i>	<u>3,475,178</u>	<u>559,140</u>	<u>193,085</u>	<u>750,000</u>	<u>(1,972,953)</u>	<u>0</u>	<u>(1,972,953)</u>
Business-Type Activities:							
Water	1,123,856	1,158,254	0	99,466	0	133,864	133,864
Sewer	867,093	719,500	0	2,371	0	(145,222)	(145,222)
<i>Total Business Type Activities</i>	<u>1,990,949</u>	<u>1,877,754</u>	<u>0</u>	<u>101,837</u>	<u>0</u>	<u>(11,358)</u>	<u>(11,358)</u>
Total	<u>\$5,466,127</u>	<u>\$2,436,894</u>	<u>\$193,085</u>	<u>\$851,837</u>	<u>(1,972,953)</u>	<u>(11,358)</u>	<u>(1,984,311)</u>
General Receipts:							
Property Taxes Levied for:							
General Purposes					60,844	0	60,844
Fire and EMS Purposes					155,178	0	155,178
Pool Bond Purposes					23,411	0	23,411
Other Purposes					13,038	0	13,038
Income Taxes					748,857	0	748,857
Other Local Taxes					64,403	0	64,403
Grants and Entitlements not Restricted to Specific Programs					128,510	0	128,510
Proceeds from Loans					0	208,662	208,662
Proceeds from Notes					600,000	0	600,000
Interest					3,884	400	4,284
Miscellaneous					66,817	11,079	77,896
<i>Total General Receipts</i>					<u>1,864,942</u>	<u>220,141</u>	<u>2,085,083</u>
<i>Change in Net Assets</i>					<u>(108,011)</u>	<u>208,783</u>	<u>100,772</u>
<i>Net Assets Beginning of Year</i>					<u>163,432</u>	<u>550,871</u>	<u>714,303</u>
<i>Net Assets End of Year</i>					<u>\$55,421</u>	<u>\$759,654</u>	<u>\$815,075</u>

See accompanying notes to the basic financial statements

City of New Lexington
Perry County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
As of December 31, 2010

	General	Fire and EMS	Pool Improvement Bond	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	(\$51,597)	(\$31,199)	\$51,178	\$87,039	\$55,421
<i>Total Assets</i>	<u>(\$51,597)</u>	<u>(\$31,199)</u>	<u>\$51,178</u>	<u>\$87,039</u>	<u>\$55,421</u>
Fund Balances (Deficits):					
Reserved:					
Reserved for Encumbrances	\$52,507	\$10,422	\$0	\$4,551	\$67,480
Unreserved Reported in:					
General Fund	(104,104)	0	0	0	(104,104)
Special Revenue Funds	0	(41,621)	0	82,488	40,867
Capital Projects Fund	0	0	51,178	0	51,178
<i>Total Fund Balances (Deficits)</i>	<u>(\$51,597)</u>	<u>(\$31,199)</u>	<u>\$51,178</u>	<u>\$87,039</u>	<u>\$55,421</u>

See accompanying notes to the basic financial statements

City of New Lexington
Perry County
Statement of Cash Receipts, Disbursements and Changes in
Cash Basis Fund Balances - Governmental Funds
For the Year Ended December 31, 2010

	General	Fire and EMS	Pool Improvement Bond	Other Governmental Funds	Total Governmental Funds
Receipts:					
Municipal Income Taxes	\$748,857	\$0	\$0	\$0	\$748,857
Property and Other Local Taxes	60,844	155,178	23,411	77,441	316,874
Charges for Services	206,778	257,178	0	16,838	480,794
Fines, Licenses and Permits	77,149	0	0	1,197	78,346
Intergovernmental	851,903	21,024	3,638	195,030	1,071,595
Interest	3,422	200	62	200	3,884
Donations	14,126	0	0	0	14,126
Miscellaneous	47,054	0	0	5,637	52,691
<i>Total Receipts</i>	<u>2,010,133</u>	<u>433,580</u>	<u>27,111</u>	<u>296,343</u>	<u>2,767,167</u>
Disbursements:					
Current:					
General Government	565,687	0	0	0	565,687
Security of Persons and Property	646,448	443,375	0	0	1,089,823
Leisure Time Activities	58,809	0	845	0	59,654
Health	0	0	0	31,232	31,232
Transportation	0	0	0	253,323	253,323
Capital Outlay	1,352,500	0	0	0	1,352,500
Debt Service:					
Principal	32,592	3,218	20,000	0	55,810
Interest and Fiscal Charges	55,388	3,206	8,555	0	67,149
<i>Total Disbursements</i>	<u>2,711,424</u>	<u>449,799</u>	<u>29,400</u>	<u>284,555</u>	<u>3,475,178</u>
<i>Excess (Deficiency) of Receipts Over (Under) Disbursements</i>	(701,291)	(16,219)	(2,289)	11,788	(708,011)
Other Financing Sources:					
Notes Issued	600,000	0	0	0	600,000
<i>Total Other Financing Sources</i>	<u>600,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>600,000</u>
<i>Net Change in Fund Balances</i>	(101,291)	(16,219)	(2,289)	11,788	(108,011)
<i>Fund Balances (Deficits) Beginning of Year</i>	49,694	(14,980)	53,467	75,251	163,432
<i>Fund Balances (Deficits) End of Year</i>	<u>(\$51,597)</u>	<u>(\$31,199)</u>	<u>\$51,178</u>	<u>\$87,039</u>	<u>\$55,421</u>

See accompanying notes to the basic financial statements

City of New Lexington
Perry County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
As of December 31, 2010

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Enterprise Funds
Assets:			
Equity in Pooled Cash and Investments	\$401,268	\$358,386	\$759,654
<i>Total Assets</i>	\$401,268	\$358,386	\$759,654
Net Assets:			
Unrestricted	\$401,268	\$358,386	\$759,654
<i>Total Net Assets</i>	\$401,268	\$358,386	\$759,654

See accompanying notes to the basic financial statements

City of New Lexington
Perry County
Statement of Cash Receipts, Disbursements and
Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2010

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Receipts:			
Charges for Services	\$1,158,254	\$719,500	\$1,877,754
Other Operating Receipts	11,079	0	11,079
<i>Total Operating Receipts</i>	1,169,333	719,500	1,888,833
Operating Disbursements:			
Personal Services	332,010	330,619	662,629
Contractual Services	146,302	92,997	239,299
Materials and Supplies	240,079	118,644	358,723
<i>Total Operating Disbursements</i>	718,391	542,260	1,260,651
<i>Operating Income</i>	450,942	177,240	628,182
Non-Operating Receipts (Disbursements):			
Interest	200	200	400
Intergovernmental	99,466	2,371	101,837
Proceeds from Loans	4,662	204,000	208,662
Debt Service:			
Principal	(170,433)	(99,078)	(269,511)
Interest	(128,983)	(20,888)	(149,871)
Capital Outlay	(106,049)	(204,867)	(310,916)
<i>Total Non-Operating Receipts (Disbursements)</i>	(301,137)	(118,262)	(419,399)
<i>Change in Net Assets</i>	149,805	58,978	208,783
<i>Net Assets Beginning of Year</i>	251,463	299,408	550,871
<i>Net Assets End of Year</i>	\$401,268	\$358,386	\$759,654

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, 2010

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 operations 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.

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, fire and EMS protection, parks and recreation, building inspection, street maintenance and repairs, and water and sewer services. Council has direct responsibility for these services.

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 debt, or the levying of 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.

Jointly Governed Organizations

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 12 to the basic financial statements.

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

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2, these financial statements are presented on a cash basis of accounting. This 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 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 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.

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.

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 are 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 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.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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.

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

Pool Improvement Bond Fund – The Pool Improvement Bond Fund receives tax and intergovernmental receipts which are used to service debt issued for the improvement of the City pool.

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

Proprietary Funds

The City classifies funds financed primarily from user charges for goods or services as proprietary. The City's proprietary funds are 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.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

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 2010. 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. This fund reported a \$0 cash balance at December 31, 2010. As such, a statement of fiduciary net assets has not been presented for 2010.

Basis of Accounting

The City's financial statements are prepared using the 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 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.

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".

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 2010, the City invested in a certificate of deposit which is 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 2010 were \$3,422.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

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 2010.

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.

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.

Interfund Receivables/Payables

The City reports advances-in and advances-out for interfund loans. The City did not have any interfund receivables/payables at December 31, 2010.

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 cash basis of accounting.

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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

The City's 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.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 – Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for security of persons and property and transportation. 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. As of December 31, 2010, there were no net assets restricted by enabling legislation.

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.

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. The City reported no transfers during 2010.

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. The City reported no extraordinary or special items during 2010.

Note 3 – Compliance and Accountability

Annual Financial Reporting in Accordance with Generally Accepted Accounting Principles

Ohio Administrative Code Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles in the United States of America. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles 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.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 3 – Compliance and Accountability (Continued)

Negative Cash Fund Balances

Contrary to Ohio Revised Code Section 5705.10(H), the City had negative cash fund balances in the following funds:

- General Fund
- Fire and EMS Fund

Appropriations Exceeding Estimated Resources

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded estimated resources in the Permissive Tax Fund.

Appropriations Exceeding Actual Resources

Contrary to Ohio Revised Code Section 5705.36(A)(4), appropriations exceeded actual resources in the Fire and EMS Fund.

Expenditures Exceeding Appropriations

Contrary to Ohio Revised Code Section 5705.41(B), expenditures exceeded appropriations in the following funds:

- General Fund
- State Highway Fund
- Cemetery Fund
- Water Fund
- Sewer Fund

Failure to Properly Encumber

Contrary to Ohio Revised Code Section 5705.41(D), the City did not properly certify the availability of funds for all required disbursements made during 2010.

Note 4 – 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.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 4 – Deposits and Investments (Continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
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, the City's bank balance of \$757,388 was either insured by the Federal Deposit Insurance Corporation or collateralized by pledged securities of its banking institution as described below.

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.

Investments

Custodial Credit Risk – 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. At year end, the City's certificate of deposit balance of \$76,405 (with a maturity date of 6 months or less) was insured by the Federal Deposit Insurance Corporation.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 4 – 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 certificate of deposit is 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. 100% of the City’s investments are in a certificate of deposit.

Reconciliation of Cash and Investments

The City’s equity in pooled cash and investments of \$815,075 at December 31, 2010 is comprised of the carrying amount of the City’s deposits and investment (certificate of deposit) of \$738,670 and \$76,405, respectively.

Note 5 – 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 2010, the receipts were allocated to the General Fund in the amount of \$748,857.

Note 6 – Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax receipts received during 2010 for real and public utility property taxes represent collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on assessed value as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of the appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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 alternate payment dates to be established.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 6 – Property Taxes (Continued)

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien on December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2010 was \$6.24 per \$1,000 of assessed value. The assessed value upon which 2010 tax collections were based was \$130,153,400. This amount consisted of \$123,162,057 and \$6,991,343 of real property assessed value and public utility property assessed value, respectively.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

Note 7 – Risk Management

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

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

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net assets at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets	\$ 34,952,010	\$ 36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	<u>\$ 20,631,198</u>	<u>\$ 21,118,036</u>

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 7 – Risk Management (Continued)

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Government's share of these unpaid claims collectible in future years is approximately \$48,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership. Contributions to PEP were \$51,004 and \$49,984 for the years ended December 31, 2010 and 2009, respectively.

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

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only in the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll, public safety members contributed 10.5 percent, and law enforcement members contributed 11.1 percent.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 8 – Defined Benefit Pension Plans (Continued)

The City's contribution rate for 2010 was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution rate was 17.87 percent of covered payroll. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions to OPERS for the years ended December 31, 2010, 2009, and 2008 were \$99,590, \$121,748, and \$115,654, respectively. The full amount has been contributed for 2010, 2009 and 2008.

Ohio Police and Fire Pension Fund

Plan Description - 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution rate was 19.5 percent for police officers. Contribution rates are established by State statute. The City's pension contributions to OP&F were \$31,719, \$32,684 and \$35,238 for the years ended December 31, 2010, 2009, and 2008, respectively. The full amount has been contributed for 2010, 2009 and 2008.

Note 9 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including the postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for postemployment healthcare coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised permits, but does not require, OPERS to provide healthcare benefits to eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The postemployment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund postemployment healthcare through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postemployment healthcare.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 9 - Postemployment Benefits (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2010, state and local government employers contributed 14 percent of covered payroll (17.87 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment healthcare benefits.

The amount of the employer contributions which was allocated to fund postemployment healthcare for members in the Traditional Plan was 5.5 percent of covered payroll from January 1, 2010 through February 28, 2010 and 5 percent from March 1 through December 31, 2010. The amount of the employer contributions which was allocated to fund postemployment healthcare for members in the Combined Plan was 4.73 percent of covered payroll from January 1, 2010 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment healthcare plan.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2010, 2009, and 2008 were \$56,776, \$51,090, and \$57,827, respectively. The full amount has been contributed for 2010, 2009, and 2008.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postemployment healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – OP&F's postemployment healthcare plan was established and is administered as an Internal Revenue Code 401 (h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active plan members, currently, 19.5 percent of covered payroll for police employer units.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 9 - Postemployment Benefits (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401 (h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2010, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits were \$16,792, \$17,303, and \$18,655 for the years ended December 31, 2010, 2009 and 2008, respectively. The full amount has been contributed for 2010, 2009 and 2008.

Note 10 – Debt

The City's long-term debt activity for the year ended December 31, 2010 was as follows:

	Interest Rate	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due Within One Year
Governmental Activities:						
Swimming Pool G.O. Bonds	5.90%	\$ 145,000	\$ -	\$ (20,000)	\$ 125,000	\$ 20,000
Police Cruisers G.O. Note	4.00%	43,902	-	(10,338)	33,564	10,755
Municipal Building G.O. Note	4.50%	1,208,736	-	(22,254)	1,186,482	22,643
Fire Truck G.O. Note	4.50%	28,479	-	(3,218)	25,261	5,438
Series 2010 Building G.O. Note	4.50%	-	600,000	-	600,000	20,475
Total Governmental Activities		<u>\$1,426,117</u>	<u>\$ 600,000</u>	<u>\$ (55,810)</u>	<u>\$ 1,970,307</u>	<u>\$ 79,311</u>
Business-Type Activities						
Water Detention Structure						
Revenue Bonds	3.23%	\$ 36,286	\$ -	\$ (12,467)	\$ 23,819	\$ 13,041
Sanitary Sewer System Revenue Bonds	4.50%	911,000	-	(16,000)	895,000	17,000
Ohio Water Development Authority (OWDA) Loans	1.5% to 7.89%	3,445,205	4,662	(225,963)	3,223,904	208,125
Ohio Public Works Commission Loans (OPWC)	0% to 2.0%	261,890	204,000	(15,081)	450,809	15,335
Total Business-Type Activities		<u>\$4,654,381</u>	<u>\$ 208,662</u>	<u>\$ (269,511)</u>	<u>\$ 4,593,532</u>	<u>\$ 253,501</u>

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 10 – Debt (Continued)

General obligation bonds and notes are supported by the full faith and credit of the City and are payable from property tax receipts to the extent that that other resources are not available to meet annual principal and interest payments.

During 2010, the City issued a \$600,000 Series 2010 Building General Obligation Note at 4.5% payable over 20 years, with final payment on or before September 2, 2030 for the purpose of making building improvements.

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 revenue bonds consist of water and sewer improvement issues.

The Ohio Water Development Authority (OWDA) Loans are payable from user charges assessed for water and sewer services. These loans were used to make water and sewer system improvements. During 2010, OWDA disbursed \$4,662 for Water Treatment Plant Improvements. 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. During 2010, the City issued an additional \$204,000 in loans for the wastewater treatment plant sludge dewatering improvements project.

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5% of the tax valuation of the City. The Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed an amount equal to 10.5% of its tax valuation.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 10 – Debt (Continued)

The following is a summary of the City’s future annual debt service requirements at December 31, 2010:

Year	Swimming Pool G.O. Bonds		Police Cruisers G.O. Note		Municipal Building G.O. Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 20,000	\$ 3,688	\$ 10,755	\$ 1,236	\$ 22,643	\$ 52,329
2012	20,000	6,195	11,187	804	23,529	51,443
2013	20,000	5,015	11,622	349	24,744	50,228
2014	20,000	3,835	-	-	25,870	49,102
2015	20,000	2,655	-	-	27,047	47,925
2016-2020	25,000	1,475	-	-	154,585	220,277
2021-2025	-	-	-	-	193,279	181,583
2026-2030	-	-	-	-	714,785	73,407
Total	\$ 125,000	\$ 22,863	\$ 33,564	\$ 2,389	\$ 1,186,482	\$ 726,294

Year	Fire Truck G.O. Note		Series 2010 Building G.O. Note		Water Detention Structure Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 5,438	\$ 987	\$ 20,475	\$ 25,347	\$ 13,041	\$ 768
2012	5,683	742	19,897	25,925	10,778	348
2013	5,944	481	20,875	24,947	-	-
2014	8,196	210	21,825	23,997	-	-
2015	-	-	22,818	23,004	-	-
2016-2020	-	-	130,520	98,589	-	-
2021-2025	-	-	163,134	65,975	-	-
2026-2030	-	-	200,456	25,303	-	-
Total	\$ 25,261	\$ 2,420	\$ 600,000	\$ 313,087	\$ 23,819	\$ 1,116

Year	Sanitary Sewer System Revenue Bonds		OWDA Loans (*)		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 17,000	\$ 40,275	\$ 208,125	\$ 60,584	\$ 15,335	\$ 3,990
2012	17,000	39,510	218,276	50,639	18,994	3,731
2013	18,000	38,745	206,336	40,032	22,658	3,467
2014	19,000	37,935	187,862	29,459	22,928	3,197
2015	20,000	37,080	58,657	18,632	23,203	2,922
2016-2020	113,000	171,135	308,985	77,463	120,334	10,291
2021-2025	141,000	143,325	336,908	49,540	104,545	2,933
2026-2030	176,000	108,630	241,114	21,336	44,612	82
2031-2035	217,000	65,250	126,312	6,439	34,000	-
2036-2040	157,000	14,355	5,878	89	34,000	-
2041-2045	-	-	-	-	10,200	-
Total	\$ 895,000	\$ 696,240	\$ 1,898,453	\$ 354,213	\$ 450,809	\$ 30,613

(*) The amortization schedule above for OWDA loans does not agree to the table on page 29 because the amortization schedule for loan 4700, with a principal balance of \$1,325,451 at December 31, 2010, is not yet finalized and therefore an amortization is not yet available.

City of New Lexington
Perry County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 11 – Contingent Liabilities

The City is a 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.

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

Note 12 – Jointly Governed Organization

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 13 – Subsequent Events

On March 31, 2011, the City entered into an agreement with the Ohio Water Development Authority (OWDA). The agreement permits the City to receive loan proceeds from OWDA (up to an amount of \$297,832) to finance portions of the City's sludge dewatering project. When the loan proceeds are fully drawn by the City and the loan is finalized, the agreement requires repayment of principal and interest over a 30 year term at an interest rate of 2.0%.

In accordance with the results of the 2010 Census, effective January 1, 2011, the City will be recognized as a village.

Note 14 – Financial Condition

As of December 31, 2010, the City had deficit cash fund balances of \$51,597 and \$31,199 in the General Fund and Fire and EMS Fund, respectively. The City's management plans to implement a combination of cost-cutting and receipt-enhancing changes to address these deficit cash fund balances.

Required Supplementary Information

City of New Lexington
Perry County
Schedule of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Municipal Income Taxes	\$786,000	\$786,000	\$748,857	(\$37,143)
Property and Other Local Taxes	26,580	26,162	60,844	34,682
Charges for Services	90,330	88,912	206,778	117,866
Fines, Licenses and Permits	33,702	33,173	77,149	43,976
Intergovernmental	44,516	366,308	851,903	485,595
Interest	1,495	1,471	3,422	1,951
Donations	6,171	6,074	14,126	8,052
Miscellaneous	20,555	20,233	47,054	26,821
<i>Total Receipts</i>	1,009,349	1,328,333	2,010,133	681,800
Disbursements:				
Current:				
General Government	530,946	571,113	618,194	(47,081)
Security of Persons and Property	572,500	646,110	646,448	(338)
Leisure Time Activities	23,041	51,888	58,809	(6,921)
Capital Outlay	0	0	1,352,500	(1,352,500)
Debt Service:				
Principal	41,490	32,218	32,592	(374)
Interest and Fiscal Charges	70,510	54,745	55,388	(643)
<i>Total Disbursements</i>	1,238,487	1,356,074	2,763,931	(1,407,857)
<i>Excess (Deficiency) of Receipts Over (Under) Disbursements</i>	(229,138)	(27,741)	(753,798)	(726,057)
Other Financing Sources:				
Notes Issued	0	0	600,000	600,000
<i>Total Other Financing Sources</i>	0	0	600,000	600,000
<i>Net Change in Fund Balance</i>	(229,138)	(27,741)	(153,798)	(126,057)
<i>Fund Balance Beginning of Year</i>	(3,452)	(3,452)	(3,452)	0
<i>Prior Year Encumbrances Appropriated</i>	53,146	53,146	53,146	0
<i>Fund Balance End of Year</i>	(\$179,444)	\$21,953	(\$104,104)	\$126,057

See accompanying notes to the required supplementary information

City of New Lexington
Perry County
Schedule of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
Fire and EMS Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Property and Other Local Taxes	\$144,949	\$214,740	\$155,178	(\$59,562)
Charges for Services	240,226	355,889	257,178	(98,711)
Intergovernmental	19,638	29,094	21,024	(8,070)
Interest	187	277	200	(77)
<i>Total Receipts</i>	405,000	600,000	433,580	(166,420)
Disbursements:				
Current:				
Security of Persons and Property	241,873	516,073	453,797	62,276
Debt Service:				
Principal	5,510	5,510	3,218	2,292
Interest and Fiscal Charges	5,490	5,490	3,206	2,284
<i>Total Disbursements</i>	252,873	527,073	460,221	(66,852)
<i>Net Change in Fund Balance</i>	152,127	72,927	(26,641)	(99,568)
<i>Fund Balance Beginning of Year</i>	(19,853)	(19,853)	(19,853)	0
<i>Prior Year Encumbrances Appropriated</i>	4,873	4,873	4,873	0
<i>Fund Balance End of Year</i>	\$137,147	\$57,947	(\$41,621)	(\$99,568)

See accompanying notes to the required supplementary information

City of New Lexington
Perry County
Notes to the Required Supplementary Information
For the Year Ended December 31, 2010

Note 1 – 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 certificate 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.

Note 2 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Fire and EMS Fund 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 cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$52,507 for the General Fund and \$10,422 for the Fire and EMS Fund.

Note 3 – Compliance and Accountability

Appropriations Exceeding Actual Resources

Contrary to Ohio Revised Code Section 5705.36(A)(4), appropriations exceeded actual resources in the Fire and EMS Fund.

Expenditures Exceeds Appropriations

Contrary to Ohio Revised Code Section 5705.41(B), expenditures exceeded appropriations in the General Fund.

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

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

To City Council:

We have audited the financial statements of the City of New Lexington, Perry County, as of and for the year ended December 31, 2010, and have issued our report thereon dated February 13, 2012, in which it is noted that the City prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2010-001 and 2010-002 to be material weaknesses.

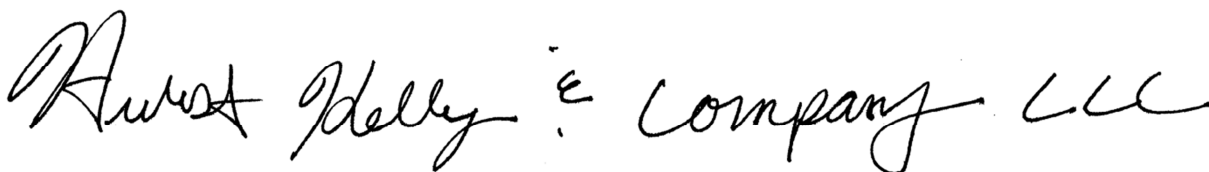
A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2010-004 through 2010-009.

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

This report is intended solely for the information and use of management, the City Council, others within the entity, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

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

Mason, Ohio
February 13, 2012

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

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

FINDING NUMBER 2010-001 – MATERIAL WEAKNESS – MATERIAL AUDIT ADJUSTMENTS

Criteria:

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

Condition:

The following schedule details material audit adjustments that were posted to the City's financial statements as a result of audit procedures performed in connection with the City's December 31, 2010 audit:

		Financial Statement Caption Debit/(Credit)					
Fund	Type	Equity in Pooled Cash and Investments	Security of Persons and Property	Transportation	Leisure Time Activities	General Government	Personal Services
General	General	\$ 6,066	\$ (7,359)	\$ -	\$ (433)	\$ 1,726	\$ -
Fire and EMS	Special Revenue	5,843	(5,843)	-	-	-	-
Street	Special Revenue	1,719	-	(1,719)	-	-	-
Water	Enterprise	5,264	-	-	-	-	(5,264)
Sewer	Enterprise	5,457	-	-	-	-	(5,457)
		\$ 24,349	\$ (13,202)	\$ (1,719)	\$ (433)	\$ 1,726	\$ (10,721)

Cause:

Material misstatements to the City's 2010 financial statements were not prevented or detected and corrected by the City's system of internal control. More specifically, the December 31, 2010 bank reconciliation contained errors that resulted in the above audit adjustments.

Effect:

The City's December 31, 2010 bank reconciliation was in error and the financial statements, as prepared by management and based, in part, on the December 31, 2010 bank reconciliation, contained material misstatements.

Recommendation:

The City should record all transactions and activities for which the City is financially accountable. Additionally, all reconciling items appearing on the monthly bank reconciliation should be scrutinized by management and adequately supported with supplementary schedules and other documentation as determined is necessary in the circumstances.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-002 – MATERIAL WEAKNESS – INADEQUATELY IMPLEMENTED SYSTEM OF ACCOUNTING

Criteria:

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

Condition:

The City's system of accounting, as currently implemented, does not provide management with timely and accurate financial data from which well-informed decisions can be based. Additionally, the City is performing manual reconciliations of receipts and disbursements to a spreadsheet to determine month-end and year-end fund cash balances.

Cause:

The system of accounting is not adequately implemented.

Effect:

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

Additionally, extra staff effort is being consumed in performing manual reconciliations of accounting system reports to spreadsheets, which still do not allow for real-time financial information (including cash balances by fund, aggregate outstanding encumbrances by fund and remaining appropriations available for expenditure by fund) to be generated and allows for deficit spending and fund cash deficits to occur (Finding 2010-005 reported deficit cash fund balances at December 31, 2010 in the General Fund and Fire and EMS Fund). Furthermore, a manual reconciliation process increases the potential for errors, omissions and fraud to occur and not be prevented or identified and corrected in a reasonable period of time.

Recommendation:

Management should reevaluate the implementation of the current system of accounting. Additionally, and as part of the reevaluation, employees should receive additional training on the system of accounting and additional resources should be procured from the software vendor (such as training manuals, additional tailoring of the accounting system's interfaces, reports, etc. to better meet the needs of the City). Furthermore, as part of the reevaluation process, management should consider if the current system of accounting is best suited to meet the current and future needs of the City.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

CITY OF NEW LEXINGTON
PERRY COUNTY

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010

FINDING NUMBER 2010-003 – SIGNIFICANT DEFICIENCY – REVIEW OF TIMESHEETS

Criteria:

An effective element of internal control over payroll disbursements is a supervisory review of employee timesheets.

Condition:

Department heads review their own timesheet.

Cause:

No policy is in place requiring department heads to have their timesheet reviewed by another employee.

Effect:

An error or omission (intentional or unintentional) could occur in a department head's timesheet and not be prevented, or detected and corrected, in a reasonable period of time.

Recommendation:

A policy should be adopted and implemented requiring department heads to have their timesheets reviewed by other department heads or members of Council.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-004 – NONCOMPLIANCE – FINANCIAL STATEMENTS NOT PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Criteria:

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP) in the United States of America.

Condition:

The City prepares its annual financial report in accordance with the cash basis of accounting, which is an other comprehensive basis of accounting other than GAAP.

Cause:

Management believes the preparation of the City's annual financial report in accordance with GAAP would result in incremental accounting and auditing costs exceeding the incremental benefits of such.

Effect:

The City's financial statements omit various assets, liabilities, fund equities, and various disclosures that would be a required part of financial statements prepared in accordance with GAAP and the City is not in compliance with the requirements of Ohio Administrative Code Section 117-2-03(B).

Recommendation:

Management should continue to consider the incremental costs and incremental benefits associated with preparing the City's annual financial report in accordance with GAAP.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation and will consider the permitted reporting formats available for villages for 2011 reporting (as the City of New Lexington will be the Village of New Lexington beginning January 1, 2011).

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-005 – NONCOMPLIANCE – DEFICIT CASH FUND BALANCES

Criteria:

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

Condition:

At December 31, 2010, the General Fund and Fire and EMS Special Revenue Fund had deficit cash fund balances of \$51,597 and \$31,199, respectively.

Cause:

The deficit cash fund balance of the General Fund is directly related to Finding 2010-002 (system of accounting as currently implemented does not report real-time fund information), Finding 2010-008 (expenditures exceeding appropriations) and Finding 2010-009 (failure to properly encumber).

The deficit cash fund balance of the Fire and EMS Fund is directly related to Finding 2010-002 (system of accounting as currently implemented does not report real-time fund information), Finding 2010-006 (appropriations exceeding actual resources) and Finding 2010-009 (failure to properly encumber).

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

Effect:

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

Recommendation:

The City's management should ensure that money from one fund is not used to cover the expenses of another fund and should implement the recommendations associated with Findings 2010-002, 2010-006, 2010-008 and 2010-009.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-006 – NONCOMPLIANCE – FAILURE TO PROPERLY OBTAIN AMENDED CERTIFICATES

Criteria:

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

Condition:

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

Estimated Receipts	Actual Receipts	Variance
\$ 600,000	\$ 433,580	\$ (166,420)

Cause:

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

Effect:

Failure to properly obtain amended certificates when the amount of a deficiency will reduce available resources below the current level of appropriations can result in overspending and deficit fund balances (and did so, as reported in Finding 2010-005) and is noncompliant with Section 5705.36(A)(4) of the Ohio Revised Code.

Recommendation:

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

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-007 – NONCOMPLIANCE – APPROPRIATIONS IN EXCESS OF AMOUNTS CERTIFIED AS AVAILABLE FOR EXPENDITURE

Criteria:

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

Condition:

The Permissive Tax Fund had appropriations in excess of the estimated resources available for expenditure as certified by the budget commission for 2010 as detailed below:

Estimated Resources	Appropriations	Variance
\$ 36,815	\$ 64,403	\$ (27,588)

Cause:

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

Effect:

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

Recommendation:

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

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation.

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-008 – NONCOMPLIANCE – EXPENDITURES IN EXCESS OF APPROPRIATIONS

Criteria:

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

Condition:

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

Fund Name	Budgetary		Variance
	Disbursements	Appropriations	
General Fund	\$ 2,763,931	\$ 1,356,074	\$ (1,407,857)
State Highway Fund	20,468	20,000	(468)
Cemetery Fund	32,644	29,000	(3,644)
Water Fund	1,146,301	1,127,637	(18,664)
Sewer Fund	881,289	739,163	(142,126)

Cause:

The City expended funds in excess of appropriations. Additionally, and as reported in Finding 2010-002, real-time fund financial information (such as comparisons of budget to actual amounts) was not available to management to allow for the monitoring of the level of current expenditures to current appropriations.

Effect:

Expenditures in excess of appropriations can result in overspending and deficit fund balances (and did so in the General Fund, as reported in Finding 2010-005) and is noncompliant with Section 5705.41(B) of the Ohio Revised Code.

Recommendation:

The City should routinely compare actual expenditures to current appropriations and request supplemental appropriations from Council when needed and implement the recommendations associated with Finding 2010-002.

View of Responsible Officials and Planned Corrective Actions:

Management concurs with the finding and recommendation

**CITY OF NEW LEXINGTON
PERRY COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2010**

FINDING NUMBER 2010-009 – NONCOMPLIANCE – FAILURE TO PROPERLY ENCUMBER

Criteria:

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

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

Condition:

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

Cause:

For 1 of the sixteen items noted above, the City did not use a purchase order as required by Section 5705.41(D)(1) of the Ohio Revised Code.

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

Effect:

Failure to properly certify the availability of funds can result in overspending and deficit fund balances (and did so with respect to the General Fund and Fire and EMS Fund as reported in Finding 2010-005) and is noncompliant with Section 5705.41(D)(1) of the Ohio Revised Code.

Recommendation:

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

View of Responsible Officials and Planned Corrective Actions:

We are in agreement with finding and recommendations.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Noncompliance – Financial Statements Not Prepared In Accordance with GAAP	No	Reissued as Finding 2010-004
2009-02	Noncompliance – Expenditures in Excess of Appropriations	No	Reissued as Finding 2010-008
2009-03	Material Weakness – Inadequately implemented System of Accounting	No	Reissued as Finding 2010-002



Dave Yost • 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
MAY 1, 2012