



**Auditor of State
Betty Montgomery**

VILLAGE OF NEW PARIS
PREBLE COUNTY

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**Auditor of State
Betty Montgomery**

Village of New Paris
Preble County
115 North Spring Street
New Paris, Ohio 45347

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

August 17, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Eldorado
Preble County
115 North Spring Street
P.O. Box 147
New Paris, Ohio 45347

To the Village Council:

We have audited the accompanying financial statements of the Village of New Paris, Preble County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of New Paris, Preble County, Ohio, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

August 17, 2006

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$54,532	\$22,776	\$77,308
Intergovernmental Receipts	94,204	91,647	185,851
Charges for Services	16		16
Fines, Licenses, and Permits	2,395	73	2,468
Earnings on Investments	10,588		10,588
Miscellaneous	17,673	2,560	20,233
 Total Cash Receipts	 179,408	 117,056	 296,464
Cash Disbursements:			
Current:			
Security of Persons and Property	73,790	26,864	100,654
Leisure Time Activities		219	219
Community Environment	1,467		1,467
Transportation		46,007	46,007
General Government	63,249		63,249
Capital Outlay		4,116	4,116
 Total Cash Disbursements	 138,506	 77,206	 215,712
 Total Receipts Over Disbursements	 40,902	 39,850	 80,752
Other Financing Receipts and (Disbursements):			
Transfers-In		4,520	4,520
Transfers-Out	(10,269)	(3,641)	(13,910)
Other Financing Uses	(7,213)	(5,304)	(12,517)
 Total Other Financing Receipts/(Disbursements)	 (17,482)	 (4,425)	 (21,907)
 Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	 23,420	 35,425	 58,845
 Fund Cash Balances, January 1	 4,416	 50,156	 54,572
 Fund Cash Balances, December 31	 \$27,836	 \$85,581	 \$113,417

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Cash Receipts:	
Charges for Services	\$426,635
Miscellaneous	1,552
	<hr/>
Total Operating Cash Receipts	428,187
	<hr/>
Operating Cash Disbursements:	
Personal Services	101,513
Fringe Benefits	31,768
Contractual Services	63,499
Supplies and Materials	17,782
Capital Outlay	2,277
	<hr/>
Total Operating Cash Disbursements	216,839
	<hr/>
Operating Income	211,348
	<hr/>
Non-Operating Cash Disbursements:	
Debt Service:	
Principal	70,587
Interest	97,527
Other Non-Operating Cash Disbursements	23,718
	<hr/>
Total Non-Operating Cash Disbursements	191,832
	<hr/>
Excess of Receipts Over Disbursements Before Interfund Transfers	19,516
	<hr/>
Transfers-In	133,246
Transfers-Out	(123,856)
	<hr/>
Net Receipts Over Disbursements	28,906
	<hr/>
Fund Cash Balances, January 1	441,875
	<hr/>
Fund Cash Balances, December 31	<u><u>\$470,781</u></u>

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$55,315	\$23,304	\$78,619
Intergovernmental Receipts	93,817	132,353	226,170
Charges for Services	19		19
Fines, Licenses, and Permits	4,843	175	5,018
Earnings on Investments	7,291		7,291
Miscellaneous	14,843	283	15,126
	<u>176,128</u>	<u>156,115</u>	<u>332,243</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	84,401	25,196	109,597
Leisure Time Activities		387	387
Community Environment	1,685		1,685
Transportation		61,906	61,906
General Government	70,008		70,008
Capital Outlay		97,451	97,451
	<u>156,094</u>	<u>184,940</u>	<u>341,034</u>
Total Receipts Over/(Under) Disbursements	<u>20,034</u>	<u>(28,825)</u>	<u>(8,791)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		1,086	1,086
Transfers-Out	(7,088)		(7,088)
Other Financing Uses	(16,936)	(6,584)	(23,520)
	<u>(24,024)</u>	<u>(5,498)</u>	<u>(29,522)</u>
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements and Other Financing Disbursements	(3,990)	(34,323)	(38,313)
Fund Cash Balances, January 1	<u>8,406</u>	<u>84,479</u>	<u>92,885</u>
Fund Cash Balances, December 31	<u>\$4,416</u>	<u>\$50,156</u>	<u>\$54,572</u>

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

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

Operating Cash Receipts:	
Charges for Services	\$436,586
Miscellaneous	2,053
	438,639
Total Operating Cash Receipts	438,639
Operating Cash Disbursements:	
Personal Services	104,270
Fringe Benefits	32,911
Contractual Services	66,088
Supplies and Materials	21,896
Capital Outlay	58,374
	283,539
Total Operating Cash Disbursements	283,539
Operating Income	155,100
Non-Operating Cash Receipts:	
Intergovernmental Receipts	56,279
Earnings on Investments	34
	56,313
Total Non-Operating Cash Receipts	56,313
Non-Operating Cash Disbursements:	
Debt Service:	
Principal	69,925
Interest	94,133
Other Non-Operating Cash Disbursements	5,890
	169,948
Total Non-Operating Cash Disbursements	169,948
Excess of Receipts Over Disbursements Before Interfund Transfers	41,465
Transfers-In	152,876
Transfers-Out	(146,875)
	47,466
Net Receipts Over Disbursements	47,466
Fund Cash Balances, January 1	394,409
Fund Cash Balances, December 31	\$441,875

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of New Paris, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services.

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

B. Basis of Accounting

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

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Policy Levy Fund - This fund receives property tax money for the security of persons and property.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

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

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

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$545,130	\$458,620
Total deposits	545,130	458,620
STAR Ohio	39,068	37,827
Total investments	39,068	37,827
Total deposits and investments	\$584,198	\$496,447

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by a letter of credit with Federal Home Loan Bank of Cincinnati listing the Village as the beneficiary.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$186,600	\$179,408	(\$7,192)
Special Revenue	160,282	121,576	(38,706)
Enterprise	593,306	561,433	(31,873)
Total	\$940,188	\$862,417	(\$77,771)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$191,035	\$155,988	\$35,047
Special Revenue	210,417	86,151	124,266
Enterprise	1,035,182	532,527	502,655
Total	\$1,436,634	\$774,666	\$661,968

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$186,900	\$176,128	(\$10,772)
Special Revenue	150,000	157,201	7,201
Enterprise	663,333	647,828	(15,505)
Total	\$1,000,233	\$981,157	(\$19,076)

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$186,007	\$180,118	\$5,889
Special Revenue	234,477	191,524	42,953
Enterprise	1,014,442	600,362	414,080
Total	\$1,434,926	\$972,004	\$462,922

4. PROPERTY TAX

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

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$216,151	2.00%
Ohio Public Works Commission Loan	297,556	0.00%
Water System Mortgage Revenue Bonds	2,040,000	4.50%
Total	\$2,553,707	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant project. The OWDA loaned \$630,607 to the Village for Project 122SRF. The loan is being repaid in semiannual installments of \$19,206, including interest, over a total of 20 years (the first payment was made in

July 1992). The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Village was awarded \$680,130 by the Ohio Public Works Commission (OPWC) on July 1, 1999, for the water supply system project. Of this money, \$340,065 was from a grant and \$340,065 was from a loan. The loan is being repaid in semiannual installments of \$8,502, over a total of 20 years (the first payment was made in December 2003). The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. DEBT (Continued)

The Water System Mortgage Revenue Bonds were renewed on November 19, 2003, for \$2,080,000. The bonds were issued to finance the acquisition, construction, and installation of improvements to the water. The bonds bear interest payable and principal payable annually on November 1 (initially November 1, 2004). The bonds have a final maturity date of November 1, 2043. The bonds are secured by an indenture of mortgage upon all property of the Village which constitutes its municipal water system (including all extensions, additions, replacements, improvements and alterations to the water system). As required by the mortgage revenue bond covenant, the Village has established and funded a water system operating fund, from which debt service payments will be made.

In 2004, the Village completed principal payments of \$9,954 on two police cruisers, and these payments were classified as security of persons and property.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC Loan	Water System Revenue Bonds
2006	\$19,206	\$8,502	\$111,800
2007	38,412	17,003	115,900
2008	38,412	17,003	110,021
2009	38,412	17,003	113,875
2010	38,412	17,003	112,750
2011-2015	57,618	85,016	565,759
2016-2020		85,016	561,072
2021-2025		51,010	566,957
2026-2030			556,582
2031-2035			567,478
2036-2040			566,318
2041-2043			343,800
Total	\$230,472	\$297,556	\$4,292,312

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. RISK MANAGEMENT

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

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

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$30,850.

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village 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.

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**Auditor of State
Betty Montgomery**

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

Village of New Paris
Preble County
115 North Spring Street
New Paris, Ohio 45347

To the Village Council:

We have audited the financial statements of the Village of New Paris, Preble County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 17, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated August 17, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated August 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Village Council, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 17, 2006

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Rev. Code, Section 5705.41 (B), expenditures exceeded appropriations in the Police Levy, COPS Fund and Federal Grant funds	Yes	
2003-002	<p>The Village did not properly record debt activity on the books or request an amended certificate.</p> <p>Ohio Rev. Code, Section 5705.36, actual receipts below estimated receipts</p>	<p>No</p> <p>Yes</p>	Partially Corrected – Reissued as a management letter recommendation.



**Auditor of State
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VILLAGE OF NEW PARIS

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 14, 2006**