



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

February 21, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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VILLAGE OF EMPIRE
JEFFERSON COUNTY

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**Auditor of State
Betty Montgomery**

Village of Empire
Jefferson County
151 Nessley Street
PO Box 307
Empire, Ohio 43926

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

November 20, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Empire
Jefferson County
151 Nessley Street
PO Box 307
Empire, Ohio 43926

To the Village Council:

We have audited the accompanying financial statements of the Village of Empire, Jefferson County, (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 2004 and 2005. 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.

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 Empire, Jefferson County, 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 years 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 November 20, 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

November 20, 2006

**VILLAGE OF EMPIRE
JEFFERSON 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**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$11,011	\$7,419	\$18,430
Intergovernmental Receipts	14,149	86,031	100,180
Charges for Services		378	378
Fines, Licenses, and Permits	48,491		48,491
Earnings on Investments	59		59
Miscellaneous	1,230		1,230
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	74,940	93,828	168,768
Cash Disbursements:			
Current:			
Security of Persons and Property	29,146	16,800	45,946
Public Health Services	1,675	5,307	6,982
Leisure Time Activities	2,204		2,204
Transportation		10,583	10,583
General Government	26,350		26,350
Debt Service:			
Principal Payments		3,050	3,050
Interest Payments		385	385
Capital Outlay		57,000	57,000
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	59,375	93,125	152,500
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	15,565	703	16,268
Other Financing Receipts and (Disbursements):			
Transfers-In	4,250	10,053	14,303
Transfers-Out	(6,497)	(7,806)	(14,303)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(2,247)	2,247	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	13,318	2,950	16,268
Fund Cash Balances, January 1	23,483	11,398	34,881
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$36,801	\$14,348	\$51,149

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

VILLAGE OF EMPIRE
JEFFERSON COUNTY

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$36,443		\$36,443
Total Operating Cash Receipts	<u>36,443</u>		<u>36,443</u>
Operating Cash Disbursements:			
Personal Services	12,000		12,000
Fringe Benefits	2,052		2,052
Contractual Services	8,560		8,560
Supplies and Materials	3,357		3,357
Capital Outlay	351		351
Total Operating Cash Disbursements	<u>26,320</u>		<u>26,320</u>
Operating Income/(Loss)	<u>10,123</u>		<u>10,123</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts		\$74,240	74,240
Total Non-Operating Cash Receipts		<u>74,240</u>	<u>74,240</u>
Non-Operating Cash Disbursements:			
Debt Service	12,850		12,850
Other Non-Operating Cash Disbursements		73,130	73,130
Total Non-Operating Cash Disbursements	<u>12,850</u>	<u>73,130</u>	<u>85,980</u>
Net Receipts Over/(Under) Disbursements	(2,727)	1,110	(1,617)
Fund Cash Balances, January 1	<u>5,420</u>		<u>5,420</u>
Fund Cash Balances, December 31	<u>\$2,693</u>	<u>\$1,110</u>	<u>\$3,803</u>

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

VILLAGE OF EMPIRE
JEFFERSON 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>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$10,537	\$7,021	\$17,558
Intergovernmental Receipts	14,301	23,588	37,889
Charges for Services	3,100		3,100
Fines, Licenses, and Permits	28,885		28,885
Earnings on Investments	52		52
Miscellaneous	243		243
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	57,118	30,609	87,727
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	23,197	18,788	41,985
Public Health Services	1,445		1,445
Leisure Time Activities	5,628		5,628
Transportation		5,773	5,773
General Government	30,038		30,038
Debt Service:			
Principal Payments		3,000	3,000
Interest Payments		385	385
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	60,308	27,946	88,254
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(3,190)	2,663	(527)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	26,673	8,735	35,408
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$23,483	\$11,398	\$34,881
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The notes to the financial statements are an integral part of this statement.

VILLAGE OF EMPIRE
JEFFERSON COUNTY

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$38,648		\$38,648
Total Operating Cash Receipts	<u>38,648</u>		<u>38,648</u>
Operating Cash Disbursements:			
Personal Services	12,042		12,042
Fringe Benefits	2,128		2,128
Contractual Services	8,237		8,237
Supplies and Materials	3,377		3,377
Capital Outlay	1,524		1,524
Total Operating Cash Disbursements	<u>27,308</u>		<u>27,308</u>
Operating Income/(Loss)	<u>11,340</u>		<u>11,340</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts		\$39,614	39,614
Total Non-Operating Cash Receipts		<u>39,614</u>	<u>39,614</u>
Non-Operating Cash Disbursements:			
Debt Service	12,504		12,504
Other Non-Operating Cash Disbursements		42,939	42,939
Total Non-Operating Cash Disbursements	<u>12,504</u>	<u>42,939</u>	<u>55,443</u>
Net Receipts Over/(Under) Disbursements	(1,164)	(3,325)	(4,489)
Fund Cash Balances, January 1	<u>6,584</u>	<u>3,325</u>	<u>9,909</u>
Fund Cash Balances, December 31	<u>\$5,420</u>	<u>\$0</u>	<u>\$5,420</u>

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

**VILLAGE OF EMPIRE
JEFFERSON 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 Empire, Jefferson County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides sewer utilities, park operations, and fire 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. 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.

Fire Levy Fund -This fund receives tax levy monies. Funds are spent on behalf of the fire department.

Homeland Security Grant Fund – This receives grant monies for the purchase of fire security equipment.

VILLAGE OF EMPIRE
JEFFERSON COUNTY

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

3. **Enterprise Fund**

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 Fund:

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

4. **Fiduciary Fund (Agency Fund)**

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

Magistrate Court Fund – This fund is used to account for all Magistrate Court Activity.

D. **Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object 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.

E. **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.

**VILLAGE OF EMPIRE
JEFFERSON 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	\$54,952	\$40,301

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool

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	\$57,759	\$79,190	\$21,431
Special Revenue	100,870	103,881	3,011
Enterprise	37,500	36,443	(1,057)
Total	\$196,129	\$219,514	\$23,385

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$81,242	\$65,872	\$15,370
Special Revenue	112,268	100,931	11,337
Enterprise	42,920	39,170	3,750
Total	\$236,430	\$205,973	\$30,457

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,298	\$57,118	(\$9,180)
Special Revenue	28,365	30,609	2,244
Enterprise	38,500	38,648	148
Total	\$133,163	\$126,375	(\$6,788)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$92,971	\$60,308	\$32,663
Special Revenue	37,101	27,946	9,155
Enterprise	45,084	39,812	5,272
Total	\$175,156	\$128,066	\$47,090

**VILLAGE OF EMPIRE
JEFFERSON COUNTY**

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

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.

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	\$35,839	10.98%
Tractor Loan	2,164	5.06%

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project the Ohio Environmental Protection Agency mandated. The OWDA approved \$123,657 in loans to the Village for this project. The Village is repaying the loans in semiannual installments of \$6,839. The loan is collateralized by the Village's future utility revenue.

The Village has a note which has been issued for the purchase of a tractor. The loan is collateralized by the Village's taxing authority.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	Tractor Loan
2006	\$13,235	\$2,257
2007	13,662	
2008	14,136	
Total	\$41,033	\$2,257

6. RETIREMENT SYSTEM

Full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004 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 EMPIRE
JEFFERSON COUNTY**

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

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. 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.

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.

**VILLAGE OF EMPIRE
JEFFERSON COUNTY**

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

7. RISK MANAGEMENT (Continued)

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 Government's share of these unpaid claims is approximately \$ 20,868.



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 Empire
Jefferson County
151 Nessley Street
PO Box 307
Empire, Ohio 43926

To the Village Council:

We have audited the financial statements of the Village of Empire, Jefferson County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 20, 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.

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 November 20, 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 November 20, 2006, we reported a matter related to noncompliance we deemed immaterial.

Village of Empire
Jefferson County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 20, 2006

VILLAGE OF EMPIRE
JEFFERSON 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 Revised Code Section 5705.41 (D)	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF EMPIRE

JEFFERSON 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
MARCH 6, 2007