



**Auditor of State
Betty Montgomery**

VILLAGE OF NEW PARIS
PREBLE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2002.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2001.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2001.....	6
Notes to the Financial Statements.....	7
Schedule of Federal Awards Expenditures.....	15
Notes to the Schedule of Federal Awards Expenditures.....	16
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	19
Schedule of Findings.....	21
Schedule of Prior Audit Findings.....	25

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of New Paris
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, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002, and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 3, 2003

**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, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$52,309	\$22,686	\$74,995
Intergovernmental Receipts	122,080	73,208	195,288
Fines, Licenses, and Permits	4,278	160	4,438
Earnings on Investments	1,441	1,513	2,954
Miscellaneous	25,238	3,317	28,555
	<u>205,346</u>	<u>100,884</u>	<u>306,230</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	138,233	40,925	179,158
Public Health Services		964	964
Leisure Time Activities		167	167
Community Environment	1,104	1,835	2,939
Basic Utility Services	8,374		8,374
Transportation		83,701	83,701
General Government	84,280	642	84,922
Capital Outlay		13,084	13,084
	<u>231,991</u>	<u>141,318</u>	<u>373,309</u>
Total Receipts (Under) Disbursements	<u>(26,645)</u>	<u>(40,434)</u>	<u>(67,079)</u>
Fund Cash Balances, January 1	<u>67,842</u>	<u>150,679</u>	<u>218,521</u>
Fund Cash Balances, December 31	<u>\$41,197</u>	<u>\$110,245</u>	<u>\$151,442</u>
Reserves for Encumbrances, December 31	<u>\$210</u>	<u>\$3,843</u>	<u>\$4,053</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$402,649
Miscellaneous	1,223
	<u>403,872</u>
Operating Cash Disbursements:	
Personal Services	138,017
Transportation	199
Contractual Services	58,236
Supplies and Materials	17,757
Capital Outlay	2,352,122
	<u>2,566,331</u>
Total Operating Cash Disbursements	<u>2,566,331</u>
Operating (Loss)	<u>(2,162,459)</u>
Non-Operating Cash Receipts:	
Intergovernmental Receipts	642,451
Interest	21,041
Proceeds from Bonds	2,080,000
Proceeds from OPWC Loan	99,636
	<u>2,843,128</u>
Total Non-Operating Cash Receipts	<u>2,843,128</u>
Non-Operating Cash Disbursements:	
Debt Service	708,512
Other Non-Operating Cash Disbursements	2,030
	<u>710,542</u>
Total Non-Operating Cash Disbursements	<u>710,542</u>
Excess of Receipts (Under) Disbursements Before Interfund Transfers and Advances	(29,873)
Transfers-In	456,901
Transfers-Out	(456,901)
	<u>(29,873)</u>
Net Receipts (Under) Disbursements	(29,873)
Fund Cash Balances, January 1	523,714
	<u>523,714</u>
Fund Cash Balances, December 31	<u>\$493,841</u>
Reserve for Encumbrances, December 31	<u>\$225</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, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$53,170	\$23,320	\$76,490
Intergovernmental Receipts	116,453	73,550	190,003
Fines, Licenses, and Permits	1,775	368	2,143
Earnings on Investments	2,792	2,436	5,228
Miscellaneous	23,719	1,504	25,223
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	197,909	101,178	299,087
Cash Disbursements:			
Current:			
Security of Persons and Property	140,186	59,338	199,524
Public Health Services		3,330	3,330
Community Environment	1,124		1,124
Basic Utility Services	6,957		6,957
Transportation		77,507	77,507
General Government	95,948	659	96,607
Capital Outlay		277	277
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	244,215	141,111	385,326
Total Receipts (Under) Disbursements	<hr/> (46,306) <hr/>	<hr/> (39,933) <hr/>	<hr/> (86,239) <hr/>
Fund Cash Balances, January 1	<hr/> 114,148 <hr/>	<hr/> 190,612 <hr/>	<hr/> 304,760 <hr/>
Fund Cash Balances, December 31	<u><u>\$67,842</u></u>	<u><u>\$150,679</u></u>	<u><u>\$218,521</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$387,213
Miscellaneous	1,713
	<u>388,926</u>
Total Operating Cash Receipts	<u>388,926</u>
Operating Cash Disbursements:	
Personal Services	124,254
Transportation	74
Contractual Services	60,628
Supplies and Materials	21,589
Capital Outlay	193,981
	<u>400,526</u>
Total Operating Cash Disbursements	<u>400,526</u>
Operating (Loss)	<u>(11,600)</u>
Non-Operating Cash Receipts:	
Proceeds from Notes	600,000
Interest	19,252
	<u>619,252</u>
Total Non-Operating Cash Receipts	<u>619,252</u>
Non-Operating Cash Disbursements:	
Debt Service	682,412
Other Non-Operating Cash Disbursements	11,206
	<u>693,618</u>
Total Non-Operating Cash Disbursements	<u>693,618</u>
Net Receipts (Under) Disbursements	(85,966)
Fund Cash Balances, January 1	<u>609,680</u>
Fund Cash Balances, December 31	<u>\$523,714</u>

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, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New Paris, Preble County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. 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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

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 disbursements, respectively.

The investment in Star Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to 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.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Highway Improvement Fund

This fund receives gasoline tax and motor vehicle tax money for improving highways.

3. Enterprise Funds

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

Water Fund

This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund

This fund receives charges for services from residents to cover the cost of providing this utility.

Water Improvement Fund

This fund was established to account for the financial activity associated with the new water system project.

Federal Loan Water Improvement Fund

This fund was established to account for the federal financial activity associated with the new water system project.

CDBG Grant Water Improvement Fund

This fund was established to account for the Community Development Block Grant activity associated with the new water system project.

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, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$403,360	\$706,900
Total deposits	403,360	706,900
STAR Ohio	241,923	35,335
Total investments	241,923	35,335
Total deposits and investments	\$645,283	\$742,235

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village, (3) collateralized by a letter of credit with Federal Home Loan Bank of Cincinnati listing the Village as the beneficiary, or (4) not insured or collateralized.

At June 30, 2002, \$213,965 of deposits were not insured or collateralized, contrary to Ohio law.

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002, and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$204,691	\$205,346	\$655
Special Revenue	105,100	100,884	(4,216)
Enterprise	5,203,532	3,703,901	(1,499,631)
Total	\$5,513,323	\$4,010,131	(\$1,503,192)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$276,293	\$232,201	\$44,092
Special Revenue	252,020	145,161	106,859
Enterprise	5,727,245	3,733,999	1,993,246
Total	\$6,255,558	\$4,111,361	\$2,144,197

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$194,959	\$197,909	\$2,950
Special Revenue	119,654	101,178	(18,476)
Enterprise	331,918	1,008,178	676,260
Total	\$646,531	\$1,307,265	\$660,734

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$294,974	\$244,215	\$50,759
Special Revenue	291,622	141,111	150,511
Enterprise	906,794	1,094,144	(187,350)
Total	\$1,493,390	\$1,479,470	\$13,920

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Improvement Fund by \$372,215 for the year ended December 31, 2001; and by \$643,545 for the year ended December 31, 2002.

Also contrary to Ohio law, at December 31, 2001, appropriations exceeded estimated resources for the following funds: State Highway, FEMA Grant, Sewer Operating, and Water Improvement. At December 31, 2002, appropriations exceeded estimated resources for the following funds: Police Education, Water Construction, and Village Share.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half 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.

Tangible personal property tax is assessed by the property owners, who must file a list of such 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 behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$314,931	2.00%
Ohio Public Works Commission Loan	99,635	0.00%
Water System Mortgage Revenue Bonds	2,080,000	2.90%
Police Cruiser Lease - GMAC	13,995	7.10%
Police Cruiser Lease - GMAC	9,356	6.50%
Total	<u>\$2,517,917</u>	

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. During the audit period the grant amount was fully expended; therefore, the loan amount was drawn on for disbursing the remaining water supply system project obligations. As of December 31, 2002, the Village had drawn \$99,635 of the available loan monies. An amortization schedule for the loan will be established upon completion of the project. 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, 2002 AND 2001
(Continued)**

5. DEBT (Continued)

The Water System Mortgage Revenue Bonds were obtained on June 1, 2002, for \$2,080,000. The bonds were issued to finance the acquisition, construction, and installation of improvements to the water system and to retire the Village's \$600,000 water improvement general obligation bond anticipation notes, second renewal, dated June 13, 2001. The bonds bear interest payable semiannually on June 1 and December 1 (initially December 1, 2002) with principal payable at maturity (December 1, 2003). 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.

The lease with General Motors Acceptance Corporation is for the lease/purchase of a 2001 Chevrolet Impala Police Sedan. The lease was entered into on July 27, 2001. The original lease/purchase amount was \$28,056 and is being repaid in annual installments of \$7,751. The first payment was made July 27, 2001. The Village will have a concluding payment of \$1 at which time the title of the cruiser will transfer to the Village.

The lease with General Motors Acceptance Corporation is for the lease/purchase of a 2000 Chevrolet Impala Police Sedan. The lease was entered into on March 15, 2001. The original lease/purchase amount was \$18,750 and is being repaid in annual installments of \$5,139. The first payment was made March 15, 2001. The Village will have a concluding payment of \$1 at which time the cruiser will be transferred to the Village.

Amortization of the above debt, including interest, is scheduled as follows:

	OWDA Loan	Water System Revenue Bonds	Police Cruiser Lease - GMAC	Police Cruiser Lease - GMAC
Year ending December 31:				
2003	\$38,412	\$2,140,320	\$7,751	\$5,139
2004	38,412		7,751	5,139
2005	38,412			
2006	38,412			
2007	38,412			
2008 – 2012	172,852			
Total	<u>\$364,912</u>	<u>\$2,140,320</u>	<u>\$15,502</u>	<u>\$10,278</u>

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 Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

8. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

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**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Cops Universal Hiring Program	2001UMWX0213	16.710	\$ 18,000
Total U.S. Department of Justice			<u>18,000</u>
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Small Cities Community Development Block Grant Program	C-W-00-245-1	14.228	<u>348,285</u>
Total U.S. Department of Housing & Urban Development			<u>348,285</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Water and Waste Disposal Systems for Rural Communities		10.760	<u>1,875,069</u>
Total U.S. Department of Agriculture			<u>1,875,069</u>
Total			<u><u>\$2,241,354</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2002 AND 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Village contribute non-Federal fund (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of New Paris
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, 2002 and 2001, and have issued our report thereon dated April 3, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-30368-001 through 2002-30368-004.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 3, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-30368-001 through 2002-30368-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated April 3, 2003.

This report is intended for the information and use of the audit committee, management, Village Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 3, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Village Council:

Compliance

We have audited the compliance of the Village of New Paris, Preble County, Ohio (the Village), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Village Council, federal awarding agencies and pass-through entities, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 3, 2003

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Water & Waste Disposal Systems for Rural Communities, CFDA #10.760 Community Development Block Grant, CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING 2002-30368-001

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

The Village did not properly certify the availability of funds for purchase commitments for 58% of expenditures tested and neither of the above two exceptions applied. Failure to properly certify the availability of funds can result in overspending available funds and negative cash fund balances.

Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING 2002-30368-002

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.39, states that total appropriation from each fund should not exceed the total estimated revenue available for expenditure there from, as certified by the budget commission.

The appropriations exceeded estimated resources in the following funds:

**FINDING 2002-30368-002
 (Continued)**

Year Ending	Fund	Appropriations	Estimated Resources	Variance
12/31/01	State Highway (Fund B2)	\$49,367	\$48,229	(\$1,138)
12/31/01	FEMA Grant (Fund B5)	\$18,542	\$18,422	(\$120)
12/31/01	Sewer Operating (Fund E2)	\$178,170	\$144,984	(\$33,186)
12/31/01	Water Improvement (Fund E9)	\$458,000	\$427,594	(\$30,406)
12/31/02	Police Education (Fund B9)	\$6,562	\$4,545	(\$2,017)
12/31/02	Water Construction (Fund E8)	\$744,802	(\$46,449)	(\$791,251)
12/31/02	Village Share (Fund E15)	\$156,870	\$0	(\$156,870)

We recommend the Village prepare amendments to the Certificate of Estimated Resources as necessary. The Certificate of Estimated Resources should be evaluated each time an appropriation amendment is made to determine that there are adequate financial resources to cover anticipated expenditures.

FINDING 2002-30368-003

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41(B), states no taxing authority shall make any expenditures of money unless it has been appropriated.

For 2001 expenditures exceeded appropriations in the Water Improvement Fund (Fund E9) by \$372,215. For 2002 expenditures exceeded appropriations in the Water Improvement Fund (Fund E9) by \$643,545. Expenditures exceeding appropriations could result in negative cash balances in individual funds. The Treasurer should deny payment requests exceeding appropriations. The Treasurer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING 2002-30368-004

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 135.18, requires that the treasurer of a political subdivision must require a depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

The Village's deposits at Eaton National Bank were not adequately covered by collateral at all times during the audit period. At 6/30/02, the Village's deposits exceeded legal security by \$213,965. Failure to adequately collateralize deposits can result in loss of funds. The Village should implement procedures to verify that depository balances are adequately secured by eligible collateral at all times.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-30368-001	Revised Code 733.28, Administrative Code, 117-2-02 & 117-2-03, failure to maintain complete and accurate books	Yes	
2000-30368-002	Revised Code, 149.351, failure to maintain supporting documentation	Yes	
2000-30368-003	Revised Code, 135.351 & 5705.10, failure to correctly post interest	No	Partially corrected – reissued as management letter citation
2000-30368-004	Revised Code, 5705.10, failure to properly record intergovernmental and tax revenues received	No	Partially corrected – reissued as management letter citation
2000-30368-005	Revised Code, 5705.41(D), failure to properly certify funds	No	Not corrected – reissued as Finding 2002-30368-001
2000-30368-006	Revised Code, 5705.41(D), failure to properly use blanket purchase orders	Yes	
2000-30368-007	Revised Code, 135.18, failure to maintain sufficient collateral	No	Not corrected – reissued as Finding 2002-30368-004
2000-30368-008	Revised Code, 5705.41(B), expenditures exceeded appropriations	No	Not corrected – reissued as Finding 2002-30368-003
2000-30368-009	The Village did not accurately complete monthly reconciliations	Yes	
2000-30368-010	The Village did not have adequate management oversight	Yes	
2000-30368-011	The Village had inadequate internal controls over utility billing and collection	No	Partially corrected – reissued as management letter recommendation

Village of New Paris
 Preble County
 Schedule of Prior Audit Findings
 Page 2

2000-30368-012	The Village had no segregation of duties	No	Not corrected – reissued as management letter recommendation
Management Letter Citation #2	Revised Code, 5705.39, appropriations exceeded estimated revenue	No	Not corrected – reissued as Finding Number 2002-30368-002



**Auditor of State
Betty Montgomery**

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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
MAY 8, 2003**