

VILLAGE OF PIKETON
PIKE COUNTY
REGULAR AUDIT
FOR YEARS ENDED DECEMBER 31, 2003 AND 2002

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com



**Auditor of State
Betty Montgomery**

Village Council
Village of Piketon
P.O. Box 562
Piketon, OH 45661

We have reviewed the *Independent Auditors' Report* of the Village of Piketon, Pike County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

June 8, 2005

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VILLAGE OF PIKETON - PIKE COUNTY
YEARS ENDING DECEMBER 31, 2003 AND DECEMBER 31, 2002
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditors' Report

Village Council
Village of Piketon
Pike County
P.O. Box 547
Piketon, Ohio 45661

We have audited the accompanying financial statements of Village of Piketon, Pike County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. 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 audits.

We conducted our audits 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 audits 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 audits provide 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Piketon, Pike County, Ohio as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in note 8 to the financial statements, the Village accumulated negative cash fund balances in the Police Fund of \$298,157 and the Water Fund of \$129,153. Existence of these deficits raises substantial doubt about the Village's ability to continue as a going concern. Management's plans in regard to these deficits are described in note 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004, 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 the audits.

This report is intended solely for the information and use of management and Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

September 9, 2004

**VILLAGE OF PIKETON
PIKE COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$48,676	\$67,448	\$116,124
Intergovernmental Receipts	112,716	125,324	238,040
Fines, Licenses and Permits	14,315	100,223	114,538
Earnings on Investments	637	7	644
Miscellaneous	260	14,265	14,525
	<u>176,604</u>	<u>307,267</u>	<u>483,871</u>
Total Operating Cash Receipts			
Cash Disbursements:			
Security of Persons and Property	46,212	284,085	330,297
Community Environment	8,488	0	8,488
Transportation	9,242	78,053	87,295
General Government	166,666	8,473	175,139
Debt Service:			
Principal Payments	0	17,795	17,795
Interest and Fiscal Charges	0	3,786	3,786
	<u>230,608</u>	<u>392,192</u>	<u>622,800</u>
Total Operating Cash Disbursements			
Other Financing Receipts/(Disbursements):			
Other Sources	289	0	289
	<u>289</u>	<u>0</u>	<u>289</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(53,715)</u>	<u>(84,925)</u>	<u>(138,640)</u>
Fund Cash Balances, January 1	<u>64,430</u>	<u>(10,787)</u>	<u>53,643</u>
Fund Cash Balances, December 31, 2003	<u>\$10,715</u>	<u>(\$95,712)</u>	<u>(\$84,997)</u>

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

**VILLAGE OF PIKETON
PIKE COUNTY, OHIO**

**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, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$560,445	0	\$560,445
Miscellaneous	9,579	0	9,579
Total Operating Cash Receipts	<u>570,024</u>	<u>0</u>	<u>570,024</u>
Operating Cash Disbursements:			
Personal Services	117,459	0	117,459
Contractual Services	234,470	0	234,470
Supplies and Materials	41,332	0	41,332
Total Operating Cash Disbursements	<u>393,261</u>	<u>0</u>	<u>393,261</u>
Operating Income/(Loss)	<u>176,763</u>	<u>0</u>	<u>176,763</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	<u>0</u>	<u>120,449</u>	<u>120,449</u>
Total Non-Operating Receipts	<u>0</u>	<u>120,449</u>	<u>120,449</u>
Non-Operating Cash Disbursements:			
Debt Service	132,098	0	132,098
Other Non-Operating Cash Disbursements	<u>0</u>	<u>122,610</u>	<u>122,610</u>
Total Non-Operating Cash Disbursements	<u>132,098</u>	<u>122,610</u>	<u>254,708</u>
Net Receipts Over/(Under) Disbursements	<u>44,665</u>	<u>(2,161)</u>	<u>42,504</u>
Fund Cash Balances, January 1	<u>100,316</u>	<u>7,628</u>	<u>107,944</u>
Fund Cash Balances, December 31	<u><u>\$144,981</u></u>	<u><u>\$5,467</u></u>	<u><u>\$150,448</u></u>

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

**VILLAGE OF PIKETON
PIKE COUNTY, OHIO**

**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>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$64,645	\$67,307	\$131,952
Intergovernmental Receipts	140,394	158,737	299,131
Fines, Licenses and Permits	12,729	133,383	146,112
Earnings on Investments	949	9	958
Miscellaneous	2,155	2,311	4,466
	<u>220,872</u>	<u>361,747</u>	<u>582,619</u>
Total Operating Cash Receipts			
Cash Disbursements:			
Security of Persons and Property	0	324,415	324,415
Community Environment	5,015	0	5,015
Basic Utility Services	3,361	0	3,361
Transportation	18,799	78,916	97,715
General Government	138,629	44,391	183,020
Capital Outlay	0	51,211	51,211
Debt Service:			
Principal Payments	0	24,941	24,941
Interest and Fiscal Charges	1,884	1,727	3,611
	<u>167,688</u>	<u>525,601</u>	<u>693,289</u>
Total Operating Cash Disbursements			
Other Financing Receipts/(Disbursements):			
Transfers-In	9,778	89,778	99,556
Transfers-Out	(89,778)	(9,778)	(99,556)
Loan Proceeds	0	51,211	51,211
Other Sources	1,626	41,547	43,173
	<u>(78,374)</u>	<u>172,758</u>	<u>94,384</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(25,190)</u>	<u>8,904</u>	<u>(16,286)</u>
Fund Cash Balances, January 1	<u>89,620</u>	<u>(19,691)</u>	<u>69,929</u>
Fund Cash Balances, December 31, 2002	<u><u>\$64,430</u></u>	<u><u>(\$10,787)</u></u>	<u><u>\$53,643</u></u>

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

**VILLAGE OF PIKETON
PIKE COUNTY, OHIO**

**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, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$556,291	\$0	\$556,291
Miscellaneous	<u>516</u>	<u>0</u>	<u>516</u>
Total Operating Cash Receipts	<u>556,807</u>	<u>0</u>	<u>556,807</u>
Operating Cash Disbursements:			
Personal Services	104,312	0	104,312
Contractual Services	179,771	0	179,771
Supplies and Materials	<u>73,383</u>	<u>0</u>	<u>73,383</u>
Total Operating Cash Disbursements	<u>357,466</u>	<u>0</u>	<u>357,466</u>
Operating Income/(Loss)	<u>199,341</u>	<u>0</u>	<u>199,341</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	<u>6,362</u>	<u>160,214</u>	<u>166,576</u>
Total Non-Operating Cash Receipts	<u>6,362</u>	<u>160,214</u>	<u>166,576</u>
Non-Operating Cash Disbursements:			
Debt Service	143,687	0	143,687
Other Financing Uses	700	0	700
Other Non-Operating Disbursements	<u>339</u>	<u>165,132</u>	<u>165,471</u>
Total Non-Operating Cash Disbursements	<u>144,726</u>	<u>165,132</u>	<u>309,858</u>
Net Receipts Over/(Under) Disbursements	<u>60,977</u>	<u>(4,918)</u>	<u>56,059</u>
Fund Cash Balances, January 1	<u>39,339</u>	<u>12,546</u>	<u>51,885</u>
Fund Cash Balances, December 31	<u>\$100,316</u>	<u>\$7,628</u>	<u>\$107,944</u>

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

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Village of Piketon, Pike County, (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, of which two members are publicly-elected and four members have been appointed by the Mayor and Council. The Village provides general governmental services, including water and sewer utilities and police protection.

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

The Village maintains an interest-bearing checking account.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Fund

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:

Police Fund – This fund receives real estate and personal property tax money, liquor permit fees, and fine money for maintaining the security of persons and property within the Village.

Community Development Block Grant Fund – This fund receives grant monies from the Federal Government and the State of Ohio to upgrade the Waste Water Treatment Plant.

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

Issue II Grant – This fund receives monies from the Ohio Public Works Commission for the paving of streets and upgrading of the Waste Water Treatment Plant.

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.

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:

Mayor's Court Fund – This fund receives fine money which is paid into the Village's Police Fund for maintaining the security of persons and property within the Village.

E. 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 level of control, and appropriations may not exceed estimated resources. The Village 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.

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.

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2003 and 2002 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. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2003</u>	<u>2002</u>
Deposits	<u>\$65,451</u>	<u>\$161,587</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and December 31, 2002 follows:

Fund Type	<u>2003 Budgeted vs. Actual Receipts</u>		Variance
	Budgeted Receipts	Actual Receipts	
General	\$137,680	\$176,893	\$39,213
Special Revenue	461,720	307,267	(154,453)
Enterprise	504,000	570,024	66,024
Total	<u>\$1,103,400</u>	<u>\$1,054,184</u>	<u>(\$49,216)</u>

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$170,250	\$230,608	(\$60,358)
Special Revenue	263,879	392,192	(128,313)
Enterprise	445,800	525,359	(79,559)
Total	<u>\$879,929</u>	<u>\$1,148,159</u>	<u>(\$268,230)</u>

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$165,733	\$232,276	\$66,543
Special Revenue	265,440	544,283	278,843
Enterprise	392,000	563,169	171,169
Total	<u>\$823,173</u>	<u>\$1,339,728</u>	<u>\$516,555</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$211,600	\$257,466	(\$45,866)
Special Revenue	234,600	535,379	(300,779)
Enterprise	353,550	502,192	(148,642)
Total	<u>\$799,750</u>	<u>\$1,295,037</u>	<u>(\$495,287)</u>

During 2003 and 2002 the Village did not properly obtain the Clerk's prior certification for expenditures contrary to Ohio Revised Code Section 5705.41(D). The Clerk approved expenditures of Village funds in excess of appropriations contrary to the provisions of Ohio Revised Code 5705.41(B). Furthermore, certain Village funds contained negative balances in violation of 5705.10 (See note 8).

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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.

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$877,210	8.07%
Ohio Public Works Commission Loan	351,499	0%
Police Cruiser Loan	22,087	3.87%
	\$1,250,796	

The Ohio Water Development Authority (OWDA) Loan originated in July 1989 and relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved \$1,308,325 in loans to the Village for this project. The loans were scheduled to be repaid in semiannual installments of \$61,648 including interest, over 25 years. The scheduled payment was adjusted to reflect revisions in amounts actually borrowed.

The police cruiser loan relates to the purchase of police cruisers. The loan will be repaid in monthly installments of \$1,508, including interest, over three years. The loan is collateralized by the equipment and to be paid from the Police Fund.

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

Year Ending December 31:	OWDA Loan	General Obligation Notes
2004	\$123,296	\$18,096
2005	123,296	4,607
2006	123,296	0
2007	123,296	0
2008	123,296	0
2009-2014	739,776	0
Total	\$1,356,256	\$22,703

6. RETIREMENT SYSTEMS

The Village's maintenance employee belongs to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing and multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

7. RISK MANAGEMENT

Risk Pool Membership

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 insurance 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. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP’s retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP’s Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

Fiscal Position

PEP’s financial statements (audited by other accountants) conform with accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>
 <u>Property Coverage</u>	 <u>2003</u>	 <u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

8. DEFICIT FUND BALANCES

At December 31, 2003, the Village had negative cash fund balances, as follows, contrary to the provisions of Ohio Revised Code Section 5705.10:

<u>Fund Type/Fund</u>	<u>Negative Balance</u>
<u>Special Revenue Fund Types</u>	
Police Fund	\$298,157
 <u>Enterprise Fund Types</u>	
Water Fund	<u>129,153</u>
Total	<u><u>\$427,310</u></u>

9. LOANS RECEIVABLE

Loans outstanding at December 31, 2003, made from the Village's Revolving Loan Fund, totaled \$186,040. These loans were made to various individuals in amounts ranging from \$1,800 to \$33,000. The interest rate for all loans was 5% and the terms varied. Borrowers were required to sign a debt agreement with the Village. The Village did not have any more than a second mortgage on any of the revolving loans.

As of December 31, 2003, 6 loans receivable totaling \$20,904 were overdue by six months or more. These loans are in default for various reasons. The Village is taking steps to collect these loans.

10. GOING CONCERN/ FISCAL EMERGENCY

The Village was declared to be in fiscal emergency by the Auditor of State of Ohio on July 8, 2004. A performance audit was conducted on the Village by the Auditor of State of Ohio dated July 8, 2004.

A Financial Planning Commission was appointed according to Chapter 118, Ohio Revised Code. The Financial Planning and Supervisor Commission of the Village of Piketon contracted with the Local Government Services Department of the office of the Auditor of State to act as the Financial Supervisor for the Village of Piketon as set forth in Chapter 118, Ohio Revised Code.

The Financial Supervisor is to provide financial oversight, accounting and reporting and general services in the following areas:

- Assist in preparation of tax budgets, appropriations and amended certificates;
- Assist in preparation of a financial plan including analyzing revenue sources to see if they are adequate to support anticipated expenditures;
- Assist in preparing five year financial forecast;
- Assist in preparing year end financial reports;
- Provide training and assistance in monthly reconciliations and maintaining of accounting ledgers;
- Assist in preparation of cash basis annual financial report for the years under audit;
- Attend monthly Commission meetings; and
- Monitor Village to ensure compliance with established procedures and spending levels.

VILLAGE OF PIKETON
PIKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

10. GOING CONCERN/ FISCAL EMERGENCY (Continued)

The Financial Planning Commission will cease to exist when the Auditor of State determines that the conditions that existed to cause the fiscal emergency no longer exist.

The Village Council intends to authorize an income tax levy in order to alleviate the existing deficit balances.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit Performed in Accordance with *Government Auditing Standards*

Village Council
Village of Piketon
Pike County
P.O. Box 547
Piketon, Ohio 45661

We have audited the accompanying financial statements of Village of Piketon, Pike County, Ohio (the Village), as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated September 9, 2004 in which we indicated there is question as to the Village's ability to continue as a going concern. 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 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 9, 2004.

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. The reportable condition is described in the accompanying schedule of findings as item 2003-004.

Village Council

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit Performed in Accordance with *Government Auditing Standards*

Page 2

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 that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the Village in a separate letter dated September 9, 2004.

This report is intended solely for the information and use of management and the Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

September 9, 2004

VILLAGE OF PIKETON
PIKE COUNTY
DECEMBER 31, 2003 AND 2002

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

Finding Number 2003-001

Noncompliance Citation

Ohio Revised Code Section 5705.10 requires that money paid into any fund shall be used only for the purposes for which the fund is established.

The following funds had negative cash balances as of December 31, 2002: Police Fund (\$176,846.36), and Street Construction and Maintenance (\$11,863.36).

The following funds had negative cash balances as of December 31, 2003: Police Fund (\$298,156.81) and Water Fund (\$129,152.98).

Negative cash balances indicate that monies from one fund were used to pay expenditures for another.

The Village should only use money paid into each fund for the purpose for which the fund was established.

Finding Number 2003-002

Noncompliance Citation

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

In 2002, the General, Police Fund (Special Revenue) and Sewer Fund (Enterprise) expenditures exceeded appropriations by \$45,866; \$300,779 and \$148,642, respectively. In 2003, the General, Police Fund (Special Revenue), and Sewer Fund (Enterprise) expenditures exceeded appropriations by \$60,358, \$128,313, and \$79,559 respectively.

Finding Number 2003-003

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

VILLAGE OF PIKETON
PIKE COUNTY
DECEMBER 31, 2003 AND 2002

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

(Continued)

Finding Number 2003-003 (Continued)

This section also provides two “exceptions” to the above requirements:

10. Then and Now Certificates – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time she is completing her certification, sufficient funds were available or in the process of collection to the credit of a proper fund, properly appropriated and free from any previous encumbrance of the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
11. Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

We noted during our testing that there were numerous occasions where the invoices were not properly encumbered.

Finding Number 2003-004

Reportable Condition

The small size of the Village’s staff did not allow for an adequate segregation of duties. All accounting procedures for the Mayor’s Court were performed by its Clerk and all accounting procedures in the Utility Department were performed by the Village’s Clerk. Also, the Village experienced several problems with fiscal management, such as, negative fund balances, expending monies which were not appropriated, and not encumbering funds.

It is, therefore, important that the Council monitor financial activity closely. By Council monitoring financial activity and budget to actual figures on a regular basis, fiscal problems could be prevented and informed decisions can be made.

Segregation of accounting duties should be considered to the extent that is practical in these departments and Council should be provided monthly financial reports including budget to actual reports and review them with due care.

VILLAGE OF PIKETON
PIKE COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-30766-001	Deficit Fund Cash Balance – ORC 5705.10	No	Not corrected. Reissued as Finding Number 2003-001.
2001-30766-002	Appropriations exceeded estimated resources – ORC 5705.39	Yes	
2001-30766-003	Disbursements exceeded appropriations – ORC 5705.41 (B)	No	Not corrected. Reissued as Finding Number 2003-002.
2001-30766-004	Prior certification of the Clerk – ORC 5705.41(D)	No	Not corrected. Reissued as Finding Number 2003-003.
2001-30766-005	Maintenance of proper financial records – Ohio Admin. Code 117-5-1 through 117-5-18.	Yes	
2001-30766-006	Estimated exceeded Actual receipts	Yes	
2001-30766-007	Monitoring financial activity by Council.	No	Not corrected. Reissued as Finding Number 2003-004.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF PIKETON

PIKE 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
JUNE 21, 2005**