



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF PIKETON
PIKE COUNTY

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Piketon, Pike County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000. 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 of the Village of Piketon, Pike County, as of December 31, 2001 and 2000, 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 Street Construction, Maintenance and Repair Fund of \$4,530, the Police Fund of \$127,039 and the Water Revenue Fund of \$113,406. 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 18, 2002 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.

This report is intended solely for the information and use of management, the Village Council 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

September 18, 2002

**VILLAGE OF PIKETON
PIKE 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>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$45,562	\$68,758	\$114,320
Intergovernmental Taxes	113,727	373,758	487,485
Fines, Licenses and Permits	18,894	117,222	136,116
Miscellaneous	1,947	89,533	91,480
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	180,130	649,271	829,401
Cash Disbursements:			
Security of Persons and Property	37	282,615	282,652
Community Environment	4,774		4,774
Basic Utility Services	3,015		3,015
Transportation	1,265	360,161	361,426
General Government	75,032	93,088	168,120
Capital Outlay		391,865	391,865
Debt Service:			
Principal Payments		16,786	16,786
Interest and Fiscal Charges		1,252	1,252
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	84,123	1,145,767	1,229,890
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	96,007	(496,496)	(400,489)
	<hr/>	<hr/>	<hr/>
Other Financing Receipts/(Disbursements):			
Sales of Notes		351,499	351,499
Transfers-in		80,000	80,000
Transfers-Out	(80,000)		(80,000)
Other Sources	2,024	6,799	8,823
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(77,976)	438,298	360,322
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	18,031	(58,198)	(40,167)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	71,589	38,506	110,095
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$89,620	(\$19,692)	\$69,928
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The notes to the financial statements are an integral part of this statement.

**VILLAGE OF PIKETON
PIKE 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, 2001**

	<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	\$465,311	\$	\$465,311
Total Operating Cash Receipts	465,311	0	465,311
Operating Cash Disbursements:			
Personal Services	169,206		169,206
Contractual Services	266		266
Supplies and Materials	156,147		156,147
Capital Outlay	78,377		78,377
Total Operating Cash Disbursements	403,996	0	403,996
Operating Income/(Loss)	61,315	0	61,315
Non-Operating Cash Receipts:			
Intergovernmental Receipts	29,410		29,410
Other Non-Operating Receipts	70,449	153,079	223,528
Total Non-Operating Cash Receipts	99,859	153,079	252,938
Non-Operating Cash Disbursements:			
Debt Service	125,507		125,507
Other Non-Operating Cash Disbursements	472	145,360	145,832
Total Non-Operating Cash Disbursements	125,979	145,360	271,339
Net Receipts Over/(Under) Disbursements	35,195	7,719	42,914
Fund Cash Balances, January 1	4,144	4,827	8,971
Fund Cash Balances, December 31	\$ 39,339	\$ 12,546	\$ 51,885

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

**VILLAGE OF PIKETON
PIKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$42,503	\$62,272	\$104,775
Intergovernmental Taxes	107,790	427,396	535,186
Charges for Services		8,349	8,349
Fines, Licenses and Permits	3,150	109,041	112,191
Miscellaneous	12,059	48,561	60,620
	<u>165,502</u>	<u>655,619</u>	<u>821,121</u>
Total Cash Receipts			
	<u>165,502</u>	<u>655,619</u>	<u>821,121</u>
Cash Disbursements:			
Security of Persons and Property	89,462	256,633	346,095
Basic Utility Services		220	220
Transportation	425	284,577	285,002
General Government	65,766	72,906	138,672
Capital Outlay		159,634	159,634
Debt Service:			
Principal Payments		14,863	14,863
Interest and Fiscal Charges		1,945	1,945
	<u>155,653</u>	<u>790,778</u>	<u>946,431</u>
Total Cash Disbursements			
	<u>155,653</u>	<u>790,778</u>	<u>946,431</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>9,849</u>	<u>(135,159)</u>	<u>(125,310)</u>
Other Financing Receipts/(Disbursements)			
Sales of Fixed Assets		6,500	6,500
Transfers-In		160,332	160,332
Transfers-Out	(51,209)	(109,123)	(160,332)
Other Sources	11,191	3,071	14,262
	<u>(40,018)</u>	<u>60,780</u>	<u>20,762</u>
Total Other Financing Receipts/(Disbursements)			
	<u>(40,018)</u>	<u>60,780</u>	<u>20,762</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(30,169)</u>	<u>(74,379)</u>	<u>(104,548)</u>
Fund Cash Balances, January 1	<u>101,758</u>	<u>112,885</u>	<u>214,643</u>
Fund Cash Balances, December 31	<u><u>\$71,589</u></u>	<u><u>\$38,506</u></u>	<u><u>\$110,095</u></u>

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

**VILLAGE OF PIKETON
PIKE 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, 2000**

	<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	\$472,610	\$	\$472,610
Total Operating Cash Receipts	472,610	0	472,610
Operating Cash Disbursements:			
Personal Services	222,379		222,379
Contractual Services	88,586		88,586
Supplies and Materials	53,524		53,524
Capital Outlay	40,234		40,234
Total Operating Cash Disbursements	404,723	0	404,723
Operating Income/(Loss)	67,887	0	67,887
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	2,222	123,806	126,028
Total Non-Operating Cash Receipts	2,222	123,806	126,028
Non-Operating Cash Disbursements:			
Debt Service	63,877		63,877
Other Non-Operating Cash Disbursements	3,145	128,078	131,223
Total Non-Operating Cash Disbursements	67,022	128,078	195,100
Net Receipts Over/(Under) Disbursements	3,087	(4,272)	(1,185)
Fund Cash Balances, January 1	1,057	9,099	10,156
Fund Cash Balances, December 31	\$ 4,144	\$ 4,827	\$ 8,971

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, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The 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. 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 and Investments

The Village had one primary checking account and had no investments during 2000 and 2001.

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:

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.

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:

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.

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

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

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, 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. 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. The Village did not encumber all commitments required by Ohio law.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH

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

	2001	2000
Demand deposits	\$121,813	\$119,066

Deposits: Deposits are either insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,527	\$182,154	\$70,627
Special Revenue	299,698	1,087,569	787,871
Enterprise	460,000	565,170	105,170
Total	\$871,225	\$1,834,893	\$963,668

2001 Budgeted vs. Actual Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$153,150	\$164,123	(\$10,973)
Special Revenue	803,865	1,145,767	(341,902)
Enterprise	291,250	529,975	(238,725)
Total	\$1,248,265	\$1,839,865	(\$591,600)

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$124,400	\$176,693	\$52,293
Special Revenue	703,400	825,522	122,122
Enterprise	415,001	474,832	59,831
Total	\$1,242,801	\$1,477,047	\$234,246

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$140,822	\$206,862	(\$66,040)
Special Revenue	303,500	899,901	(596,401)
Enterprise	155,250	471,745	(316,495)
Total	\$599,572	\$1,578,508	(\$978,936)

During both 2001 and 2000 the Village did not properly obtain the Clerk's prior certification for expenditures contrary to Ohio Rev. Code Section 5705.41(D). Village Council made fund appropriations in excess of the resources certified as available by the County Budget Commission contrary to the provisions of Ohio Rev. Code Section 5705.39. Further, the Clerk approved the expenditure of Village funds in excess of appropriations contrary to the provisions of Ohio Rev. Code Section 5705.41(B).

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding 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 payment, 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, 2001 AND 2000
(Continued)**

5. DEBT

Debt outstanding at December 31, 2001 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$970,752	8.07%
Lawn Tractor Loan	2,644	10.50%
Police Cruiser Loan	10,968	4.25%
Ohio Public Works Commission Loan	351,499	0%
Total	\$1,335,863	

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 loans were scheduled to be repaid in semiannual installments of \$61,648 including interest, over 25 years.

The lawn tractor loan was for the purchase of a tractor. The loan will be repaid in monthly installments of \$159, including interest, over four years. The loan is collateralized by the tractor and is to be paid from the Street Construction, Maintenance and Repair Fund.

The police cruiser loan relates to the purchase of police cruisers. The loan will be repaid in monthly installments of \$1,240, including interest, over three years. The loan is collateralized by the equipment and is to be paid from the Police Fund.

The Ohio Public Works Commission (OPWC) loan originated in 2001 and was for a wastewater treatment plant upgrade.

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

Year Ending December 31	OWDA Loan	Tractor Loan	Cruiser Loan	OPWC Loan
2002	\$123,296	\$1,913	\$11,164	\$0
2003	123,296	956		17,575
2004	123,296			17,575
2005	123,296			17,575
2006	123,296			17,575
2007-2011	616,480			87,875
2012-2016	369,888			87,875
2017-2021				87,875
2022				17,574
	\$1,602,848	\$2,869	\$11,164	\$351,499

6. RETIREMENT SYSTEMS

The Village's employees and elected officials belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, 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.

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for January 1, 2000 through June 30, 2000 and for 2001. For the period July 1, 2000 through December 31, 2000, PERS temporarily reduced the employers' contribution rate to 8.13% of participants' gross salaries. The Village has paid all contributions required through December 31, 2001.

7. RISK MANAGEMENT

Risk Pool Membership

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 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. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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.

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, 2001 and 2000 (the latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

7. RISK MANAGEMENT (Continued)

Financial Position (Continued)

<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	1,890,323	\$1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>\$1,421,223</u>	<u>\$1,294,053</u>

8. DEFICIT FUND BALANCES

At December 31, 2001, the Village had negative cash fund balances, as follows, contrary to the provisions of Ohio Rev, Code Section 5705.10:

<u>Fund Type/Fund</u>	<u>Negative Balance</u>
<u>Special Revenue Fund Type:</u>	
Street Construction, Maintenance and Repair Fund	\$4,530
Police Fund	127,039
<u>Enterprise Fund Type:</u>	
Water Revenue Fund	<u>113,406</u>
Total	<u>\$244,975</u>

9. LOANS RECEIVABLE

Loans outstanding at December 31, 2001, made from the Village's Revolving Loan Fund, totaled \$219,228. 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, 2001, seven loans receivable totaling \$13,539 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

The Village was declared to be in fiscal watch by the Auditor of State of Ohio on December 28, 2000. A performance audit was conducted on the Village by the Auditor of State of Ohio dated December 27, 2001.

During the 2 year period of 2000 and 2001, the deficit in the Street Construction, Maintenance and Repair Fund decreased by \$46,884; the deficit in the Police Fund increased by \$34,468; and the deficit in the Water Revenue Fund increased by \$43,483.

The Village Council implemented an increase in the water rates in 2001 and plans to reduce the number of employees in the water department to address the deficit in the Water Revenue Fund.

**VILLAGE OF PIKETON
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

10. GOING CONCERN (Continued)

To address the deficit in the Police Fund, the Village has done the following: Village Council has transferred funds from the General and Revolving Loan Funds in to the Police Fund; the Village has enhanced its patrol services and added the Law Enforcement Automated Data System (LEADS) which has helped increase revenues in the Police Fund; and the Village is currently assessing other funding measures to support the police department.

The Village Council has transferred funds to cover the deficit in the Street, Maintenance and Repair Fund and plans to allocate labor costs to other appropriate funds.

11. CONTINGENT LIABILITIES

The Village is defendant in two lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

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.



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Piketon, Pike County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated September 18, 2002. 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 2001-30766-001 through 2001-30766-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 18, 2002.

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 2001-30766-005 through 2001-30766-007.

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, of the reportable conditions described above, we consider item 2001-30766-005 to be 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 September 18, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping loop at the end.

Jim Petro
Auditor of State

September 18, 2002

**VILLAGE OF PIKETON
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-30766-001

Noncompliance Citation

Ohio Rev. 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, 2000: Police Fund (\$86,285) and the Water Revenue Fund (\$99,931).

The following funds had negative cash balances as of December 31, 2001: Street Construction, Maintenance and Repair Fund (\$4,530), Police Fund (\$127,039) and the Water Revenue Fund (\$113,406).

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 2001-30766-002

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states that total appropriations from each fund should not exceed the total estimated resources for that fund.

Appropriations exceeded estimated resources in the following funds for the year 2000: Street Construction, Maintenance and Repair Fund by \$51,412 (3,641%), Police Fund by \$22,070 (333%), and the Water Revenue Fund by \$69,922 (279%). Appropriations exceeded estimated resources in the following funds for the year 2001: Police Fund by \$104,386 (1,212%), Community Development Block Grant Fund by \$503,270 (1,284%), and the Water Revenue Fund by \$73,931 (460%).

The Village Council should not adopt appropriations which exceed the total estimated resources for each fund.

We recommend the Clerk and Village Council compare appropriations to estimated resources periodically and amend as necessary. We further recommend the Village Council not approve appropriations without supporting reports that show they do not exceed total estimated resources.

FINDING NUMBER 2001-30766-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

The following funds had expenditures which exceeded appropriations during 2000: General Fund by \$66,040 (47%), Street Construction, Maintenance and Repair Fund by \$14,104 (28%), State Highway Improvement Fund by \$1,702 (34%), Police Fund by \$244,229 (851%), Street Light Fund by \$73,814 (No appropriations), Permissive Tax Fund by \$1,408 (18%), Community Development Block Grant Fund by \$85,840 (81%), Issue II Fund by \$159,634 (No appropriations), Revolving Loan Fund by \$15,670 (15%), Water Revenue Fund by \$35,392 (37%), and the Sewer Revenue Fund by \$281,323 (469%).

VILLAGE OF PIKETON
PIKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)

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

FINDING NUMBER 2001-30766-003 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)

The following funds had expenditures which exceeded appropriations during 2001: General Fund by \$10,973 (7%), Street Construction, Maintenance and Repair Fund by \$4,787 (9%), State Highway Improvement Fund by \$991 (25%), Police Fund by \$185,441 (164%), Street Light Fund by \$17,600 (No appropriations), Permissive Tax Fund by \$9,477 (122%), Drug Enforcement Fund by \$300 (No appropriations), Issue II Fund by \$391,865 (No appropriations), Water Revenue Fund by \$65,323 (73%) and the Sewer Revenue Fund by \$173,652 (86%).

We recommend the Clerk monitor disbursements versus appropriations throughout the year. Additional appropriations should be added by resolution where resources are available. If resources do not allow for additional appropriations, funds should not be disbursed from that fund. We further recommend that Council not approve disbursements without supporting appropriations.

FINDING NUMBER 2001-30766-004

Noncompliance Citation

Ohio Rev. 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 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 encumbrance. 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.

This section also provides two "exceptions" to the above requirements:

- a. 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 that 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 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.
- b. Amounts of less than \$1,000 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.

All obligations of the Village were incurred prior to obtaining certification from the Clerk. "Then and now" certificates were used for all disbursements during the audit period, however, disbursements greater than or equal to \$1,000 were not approved by resolution or ordinance of the Village Council.

Additionally, the deficits described in Findings 2001-30766-001 and 2001-30766-003 indicate the Clerk issued certain "Then and Now" certificates without sufficient funds being available or appropriated to satisfy the obligation.

We recommend the Clerk/Treasurer certify the availability of funds prior to incurring an obligation. Also, we recommend the Village Council approve any "Then and Now" certificates for disbursements greater than or equal to \$1,000 by resolution.

VILLAGE OF PIKETON
PIKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)

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

FINDING NUMBER 2001-30766-005

Material Weakness

The Village maintained a cash journal for 2001 and 2000, and a receipts ledger for 2001, but did not maintain an appropriation ledger for 2001 and 2000 or a receipts ledger for 2000.

The cashbook was recorded in pencil, and each month's cashbook sheet was removed from the permanent binder and filed with the bank statement.

We recommend the Village Clerk maintain the cash journal in the permanent binder. This journal should be recorded in ink with none of the pages removed from it. The cash journal should contain monthly and year-to-date totals and should be reconciled with the bank each month.

We also recommend the Village Clerk maintain a receipts ledger in following manner. The Clerk should post to each receipts account the estimated amount of money to be received into the account as specified by the County Budget Commission in its official estimate of balance and receipts, set in the certificate of estimate resources. This estimated amount should be entered in the "balance" column under the heading "memoranda". When the monies are received, the amount should first be posted to the cash journal and then posted to the proper account in the receipts ledger. In posting, the amount should be entered in the "amount received" column and in the "credit" column and subtracted from the budget estimate amount ("balance"). When properly posted, this "balance" column will accurately show the amount still anticipated to be received for the fiscal year. At the close of the month, the Clerk should rule-off the column entitled "amount received" and enter the total for the month in ink. The total year-to-date should be entered on the next line and the column should be ruled off.

We further recommend the Village Clerk maintain an appropriations ledger in the following manner. The Clerk should post to each appropriation account an amount equal to the amount appropriated for that account in the annual appropriation resolution. Each expenditure or encumbrance charged against an appropriation account should be posted and subtracted from the appropriated balance producing a declining balance. This procedure should use as the source posting document, an executed purchase order. The name of the vendor as it appears on the purchase order should be entered in the "vendor" column. The amount of the purchase order is entered in the "debit" column and is also subtracted from the unencumbered balance. When the invoice is received from the vendor and a warrant written to meet the obligation, the name of the vendor is again entered and the amount of the warrant is entered in the "amount of warrant" column. If the amount encumbered and the amount of the warrant is exactly the same, no other entry is made. However, if the amount entered in the debit column is different from the amount of the warrant, an adjustment must be made. The amount of the warrant is entered in the "amount of warrant" column; if the warrant is less than the amount entered in the "debit" column, the difference shall be entered in the "credit" column and added to the unencumbered balance column. If there is a standing order or if the invoice is to be paid at the time the purchase order is written, then the name of the vendor is entered and the amount to be paid is entered in the "amount of warrant" column, in the "debit" column, and subtracted from the unencumbered balance. Appropriate columns should be totaled and reconciled monthly and yearly.

FINDING NUMBER 2001-30766-006

Reportable Condition

Estimated receipts exceeded actual receipts in 2000 in the Community Development Block Grant Fund by \$260,000 (137%) and the Revolving Loan Fund by \$27,704 (66%).

Estimated receipts exceeded actual receipts in 2001 in the Street Construction, Maintenance and Repair Fund by \$10,676 (21%), State Highway Improvement Fund by \$778 (19%), Street Light Fund by \$14,508 (56%), and the Revolving Loan Fund by \$4,061 (5%).

**VILLAGE OF PIKETON
PIKE COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-30766-006 (Continued)

Reportable Condition - Estimated Receipts (Continued)

Since appropriations can be made up to the amount of estimated resources, this could lead to the overspending of fund balances.

We recommend the Clerk monitor estimated versus actual receipts throughout the year. If it becomes apparent that the estimated is more than actual receipts, then a reduced amended certificate should be obtained from the County Auditor.

FINDING NUMBER 2001-30766-007

Reportable Condition

The small size of the Village's staff did not allow for an adequate segregation of duties. The Clerk must perform all accounting functions. It is, therefore, important that the Council monitor financial activity closely. While the Council did approve all payment vouchers, there was no documentation of the extent to which the Council used other financial information to monitor financial activity. The Clerk provided the Council with a list of disbursements and a monthly financial report. The report was not always approved in the minutes.

We recommend when the Clerk provides the Council with a copy of the monthly bank reconciliation that the Council approve and sign it. We also recommend that when the Clerk provides the Council with a monthly financial report which includes month and year-to-date receipts and disbursements, and the budgetary information, the Council should carefully review this information and make appropriate inquiries to help determine the continued integrity of financial information. This information also provided important data necessary to manage the Village.

This information can help answer questions such as the following:

Inquiries Relevant to Overall Village Operations:

- * are current receipts sufficient to cover expenditures;
- * are expenditures in line with prior year costs;
- * if unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted;
- * are anticipated receipts being timely received; and
- * is the Village maximizing its return on invested cash balances?

Council should approve the reports with their signatures and utilize the information provided to monitor budget vs. actual receipts and disbursements and compare current financial information with prior year financial information.

**VILLAGE OF PIKETON
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1999-30766-001	Deficit fund balances - ORC 5705.10	No	Not corrected. Reissued as Finding Number 2001-30766-001
1999-30766-002	Appropriations exceeded estimated resources - ORC 5705.39	No	Not corrected. Reissued as Finding Number 2001-30766-002
1999-30766-003	Disbursements exceeded appropriations – ORC 5705.41(B)	No	Not corrected. Reissued as Finding Number 2001-30766-003
1999-30766-004	Prior certification of the Clerk - ORC 5705.41(D)	No	Not corrected. Reissued as Finding number 2001-30766-004
1999-30766-005	Maintenance of proper financial records. – Ohio Admin. Code 117-5-1 through 117-5-18	No	Partially corrected. Reissued as Finding number 2001-30766-005
1999-30766-006	Estimated exceeded Actual receipts -	No	Not corrected. Reissued as Finding Number 2001-30766-006
1999-30766-007	Monitoring financial activity by Council.	No	Not corrected. Reissued as Finding Number 2001-30766-007



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OFFICE OF THE AUDITOR

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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
NOVEMBER 7, 2002**