



**Auditor of State
Betty Montgomery**

VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of The City of Gallipolis
Gallia County
518 Second Avenue
Gallipolis, Ohio 45631

To the Village Commission:

We have audited the accompanying financial statements of the Village of The City of Gallipolis, Gallia County, Ohio (the Village), as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 of The City of Gallipolis, Gallia County, Ohio, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Village of The City of Gallipolis
Gallia County
Independent Accountants' Report
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We intend this report solely for the information and use of the audit committee, management, the Village Commission and other officials authorized to receive this report under Section 117.26, Ohio Revised Code. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 24, 2005

VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY

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

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Property Tax and Other Local Taxes	\$ 1,694,313	\$ 231,480	\$	\$	\$	\$ 1,925,793
Intergovernmental Receipts	163,861	255,625		68,785		488,271
Charges for Services	294,657	61,367				356,024
Fines, Licenses, and Permits	396,027	126,175		52,288		574,490
Earnings on Investments	24,559	24,580		4,330	231	53,700
Miscellaneous	54,884	31,066			1,000	86,950
Total Cash Receipts	2,628,301	730,293	0	125,403	1,231	3,485,228
Cash Disbursements:						
Current:						
Security of Persons and Property	860,643	80,833		4,911		946,387
Public Health Services	7,110	102,145				109,255
Leisure Time Activities	57,446	4,840			557	62,843
Community Environment	85,277					85,277
Transportation	66,606	250,686				317,292
General Government	1,167,092	83,486		37,850		1,288,428
Debt Service:						
Principal Payments			321,236			321,236
Interest Payments			86,177			86,177
Capital Outlay	33,889	341,244		178,379		553,512
Total Cash Disbursements	2,278,063	863,234	407,413	221,140	557	3,770,407
Total Cash Receipts Over/(Under)						
Cash Disbursements	350,238	(132,941)	(407,413)	(95,737)	674	(285,179)
Other Financing Receipts/(Disbursements):						
Sale of Notes			205,000			205,000
Transfers-In	31,313	67,972	202,413	12,000		313,698
Advances-In	5,267	2,000		190,000		197,267
Transfers-Out	(178,358)	(188,840)				(367,198)
Advances-Out	(192,000)	(5,267)				(197,267)
Total Other Financing Receipts/(Disbursements)	(333,778)	(124,135)	407,413	202,000	0	151,500
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	16,460	(257,076)	0	106,263	674	(133,679)
Fund Cash Balances, January 1	665,349	1,025,300		186,023	7,630	1,884,302
Fund Cash Balances, December 31	\$ 681,809	\$ 768,224	\$ 0	\$ 292,286	\$ 8,304	\$ 1,750,623
Reserves for Encumbrances, December 31	\$ 13,675	\$ 16,105	\$ 0	\$ 14,643	\$ 633	\$ 45,056

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

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Charges for Services	\$ 2,699,909	\$	\$	\$ 2,699,909
Miscellaneous	27,603			27,603
Total Operating Cash Receipts	<u>2,727,512</u>	<u>0</u>	<u>0</u>	<u>2,727,512</u>
Operating Cash Disbursements:				
Personal Services	1,136,847			1,136,847
Transportation	3,993			3,993
Contractual Services	709,809			709,809
Supplies and Materials	238,557	680		239,237
Capital Outlay	151,821			151,821
Total Operating Cash Disbursements	<u>2,241,027</u>	<u>680</u>	<u>0</u>	<u>2,241,707</u>
Operating Income/(Loss)	<u>486,485</u>	<u>(680)</u>	<u>0</u>	<u>485,805</u>
Non-Operating Cash Receipts:				
Earnings on Investments	38,189	700		38,889
Miscellaneous	500			500
Other Non-Operating Receipts	10,164		1,229,083	1,239,247
Total Non-Operating Cash Receipts	<u>48,853</u>	<u>701</u>	<u>1,229,083</u>	<u>1,278,636</u>
Non-Operating Cash Disbursements:				
Debt Service - Principal	456,895			456,895
Debt Service - Interest	121,616			121,616
Other Non-Operating Cash Disbursements	634		1,226,730	1,227,364
Total Non-Operating Cash Disbursements	<u>579,145</u>	<u>0</u>	<u>1,226,730</u>	<u>1,805,875</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(43,807)	21	2,353	(41,434)
Transfers-In	100,466			100,466
Transfers-Out	(46,966)			(46,966)
Net Cash Receipts Over/(Under) Cash Disbursements	9,693	21	2,353	12,066
Fund Cash Balances, January 1	1,451,715	22,442	115,317	1,589,474
Fund Cash Balances, December 31	<u>\$ 1,461,408</u>	<u>\$ 22,463</u>	<u>\$ 117,670</u>	<u>\$ 1,601,540</u>
Reserve for Encumbrances, December 31	<u>\$ 57,630</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 57,630</u>

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

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio, as well as an adopted city charter, establish the rights and privileges of the Village of The City of Gallipolis, Gallia County, (the Village) as a body corporate and politic. A publicly-elected five-member Commission and an appointed City Manager govern the Village. The Village provides water and sewer utilities, park operations, and police services. The Village also provides fire protection services in the form of a volunteer fire department.

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

The Village is associated with the Ohio Rural Water Association Worker's Compensation Group Rating Plan that is an insurance purchasing pool. This organization is presented in Note 10 to the financial statements.

B. Basis of Accounting

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

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

C. Cash and Investments

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

Money market mutual funds are recorded at share values the mutual fund reports.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

Fire Levy Fund – This fund receives tax monies to maintain fire protection services for the Village.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Debt Service Fund – This fund receives transfers from other funds to account for payment on the Village's governmental debt issues.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Funds:

Court Capital Improvement Fund – This fund was established per Ohio Rev. Code Section 1901.26 to account for funds received from Court fines and expended for Court capital improvements.

Appalachian Regional Commission (ARC) 2 ½ Alley Project Fund – This fund receives grants from the ARC for construction costs on the 2 ½ Alley Project.

City Park Improvements Fund – This fund receives grants for construction costs related to City Park Improvements.

5. Enterprise Funds

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

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

Water Pollution Control (WPC) Fund – This fund receives charges for services from residents to cover sewer service costs.

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Funds:

Parks Expendable Trust Fund – This fund is used to account for bequests and donations given to the Village for improvements to park facilities.

Cemetery Endowment Non-Expendable Trust Fund – This fund is used to account for bequests to the Village for maintenance of the Village's cemeteries. Interest income earned on the invested balance is used for perpetual care of the lots.

Municipal Court Agency Fund – This fund is used to account for the activities of the Municipal Court.

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 or function level of control, and appropriations may not exceed estimated resources. The Village Commission 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.

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.

A summary of 2004 budgetary activity appears in Note 3.

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2004
Demand deposits	\$ 3,186,321
Money market funds	165,842
Total deposits and investments	\$ 3,352,163

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

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending follows:

Fund Type	2004 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,638,491	\$ 2,664,881	\$ 26,390
Special Revenue	800,265	800,265	0
Debt Service	407,413	407,413	0
Capital Projects	417,118	327,403	(89,715)
Expendable Trust	1,231	1,231	0
Enterprise	2,876,820	2,876,831	11
Nonexpendable Trust	701	701	0
Total	\$ 7,142,039	\$ 7,078,725	\$ (63,314)

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,824,843	\$ 2,662,096	\$ 162,747
Special Revenue	1,191,034	1,073,446	117,588
Debt Service	407,424	407,413	11
Capital Projects	446,082	235,783	210,299
Expendable Trust	3,183	1,190	1,993
Enterprise	3,294,651	2,924,768	369,883
Nonexpendable Trust	680	680	0
Total	\$ 8,167,897	\$ 7,305,376	\$ 862,521

4. PROPERTY TAX

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

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>	<u>Admin Fee</u>
Ohio Water Development Authority Loan	\$ 799,298	10.71%	
Ohio Public Works Commission Loan	50,924	0.00%	
Sewer Mortgage Revenue Refunding Bonds	650,000	5.30% - 5.625%	
State Infrastructure Bank Loan	816,880	3.00%	0.25%
Fire Station Bond	577,144	4.99%	
Vehicle Bond	167,546	4.10%	
Pumper/Tanker Fire truck Bond Anticipation Note	206,299	4.48%	
Municipal Building Bond Anticipation Note	205,000	2.10%	
Fire Truck Bond Anticipation Note	<u>357,955</u>	4.68%	
Total	<u>\$ 3,831,046</u>		

The Ohio Water Development Authority (OWDA) loan relates to the construction of the Water Treatment Plant. The original loan amount for the project was \$4,000,000 in 1981. The loan will be repaid in semiannual installments of \$232,468, including interest, over 25 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

On May 29, 2003, the OWDA Board approved a resolution establishing an Interest Rate Subsidy Program. Under the program, OWDA will reduce the effective interest rate by paying the portion of interest above 7%. This program began with the January 1, 2004 payment and will continue through the maturity date of July 1, 2006.

The Ohio Public Works Commission (OPWC) loan relates to construction of the Spruce Street lift station. The original loan amount for the project was \$138,884 in 1995. The loan will be repaid in semiannual installments of \$4,629, over 15 years. The loan is collateralized by sewer receipts.

The Sewer Mortgage Revenue Refunding Bonds were used for the upgrade of the Wastewater Treatment Plant. The original amount of the bonds totaled \$1,880,000 in 1993. The loan has a variable interest rate ranging from 3.00% to 5.625%. The bonds are to be repaid in semiannual installments of interest and annual installments of principal, over 15 years. The Village uses trust bank accounts for the repayment of these bonds. As of December 31, 2004, the balance of these accounts was \$165,842, which is included in the accompanying financial statements in the Water Pollution Control and Water Pollution Control Reserve Funds. The bonds are collateralized by sewer receipts. The Village has covenanted that it will at all times prescribe and charge such rates for the use and services of the Sewer System, and will so restrict operation and maintenance expenses of the Sewer System, as shall result in revenues from the System at least adequate, after meeting such operation and maintenance expenses, to provide for (1) the payments required by the Indenture to be made into the Bond Fund, and other Special Funds, (2) proper improvement and replacement reserves, and (3) in each 12-month period ending December 31, an amount at least equal to 115% of the amount required to be paid into the Bond Fund in a 12-month period.

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

6. DEBT (Continued)

The Village was approved for a State Infrastructure Bank Loan in the amount of \$1,400,000 to be used for the final stages of Phase I of the Eastern Avenue Flood Mitigation Route Project. As of December 31, 2004, the Village had received \$802,835 in loan proceeds and an additional \$26,304 in interest had accumulated due to a payment deferment program that lasted through December 12, 2004. The loan matures June 12, 2027.

The Fire Station Bond was issued for the purpose of paying part of the cost of constructing a fire station. The bond is collateralized by the revenues of the Village. The bond matures on February 24, 2031.

The Vehicle Bond was issued for the purpose of paying part of the cost of acquiring a brush truck, a fire truck, and a street sweeper. The bond is collateralized by revenues of the Village. The bond matures on December 1, 2010.

The Pumper/Tanker Fire Truck Bond Anticipation Note was issued in anticipation of the issuance of bonds for the purpose of paying part of the cost of acquiring a new fire truck and related equipment. This note is collateralized by the revenues of Village. The note matures on September 16, 2017.

The Municipal Building Bond Anticipation Note, 5th renewal, was issued in anticipation of the issuance of bonds for the purpose of paying part of the cost of acquiring and renovating a building for use as a municipal building. The bond anticipation note is collateralized by revenues of the Village. The bond anticipation note matures on November 11, 2005.

The Fire Truck Bond Anticipation Note, 4th renewal, was issued in anticipation of the issuance of bonds for the purpose of paying part of the cost of acquiring a fire truck and related equipment. The bond anticipation note is collateralized by revenues of the Village. The bond anticipation note matures on September 19, 2013.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC Loan	Mortgage Revenue Bonds	State Infrastructure Bank Loan	Bonds	Bond Anticipation Notes
2005	\$ 435,282	\$ 9,259	\$ 151,115	\$ 51,465	\$ 71,564	\$ 280,320
2006	449,355	9,259	154,905	51,465	71,564	71,015
2007		9,259	153,030	51,465	71,564	71,015
2008		9,259	150,750	51,465	71,564	71,015
2009		9,259	153,156	51,465	71,564	71,015
2010-2014		4,629		257,326	229,557	305,746
2015-2019				257,326	197,492	56,396
2020-2024				257,326	197,492	
2025-2029				128,663	197,492	
2030-2031					59,247	
Total	<u>\$ 884,637</u>	<u>\$ 50,924</u>	<u>\$ 762,956</u>	<u>\$ 1,157,966</u>	<u>\$ 1,239,100</u>	<u>\$ 926,522</u>

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

7. CONTRACTUAL COMMITMENTS

As of December 31, 2004, the Village had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Welsh Electric	City Park Improvements	\$6,850

8. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

9. 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 coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$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-claim 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.

**VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY**

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

9. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

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 member.

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, 2003 and 2002 (latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$ 25,288,098	\$ 20,174,977
Liabilities	<u>(12,872,985)</u>	<u>(8,550,749)</u>
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	<u>(792,061)</u>	<u>(655,318)</u>
Retained Earnings	<u>\$ 2,366,752</u>	<u>\$ 1,910,090</u>

10. INSURANCE PURCHASING POOL

The Village participates in the Ohio Rural Water Workers' Compensation Group Rating Plan (GRP), a group rating plan and insurance purchasing pool. The Ohio Rural Water Association, as the sponsoring organization, has retained the services of Comp Management, as its Group Administrator to perform claims administration, actuarial cost control, and consulting services for participants. Each year the Village pays an enrollment fee to the GRP to cover the costs of administering the program.

11. CONTINGENT LIABILITIES

The Village is the defendant two lawsuits. Although management cannot presently determine the outcome of this suit, they believe the resolution of this matter will not materially adversely affect the Village's financial condition.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

12. RELATED PARTY TRANSACTIONS

The Village rented a room in the private office of the Village Solicitor. The Village paid \$6,000 for rent of this office space during 2004.

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**Auditor of State
Betty Montgomery**

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

Village of The City of Gallipolis
Gallia County
518 Second Avenue
Gallipolis, Ohio 45631

To the Village Commission:

We have audited the financial statements of the Village of The City of Gallipolis, Gallia County, Ohio (the Village), as of and for the year ended December 31, 2004, and have issued our report thereon dated March 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated March 24, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring 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 grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated March 24, 2005, we reported other matters related to noncompliance we deemed immaterial.

Village of The City of Gallipolis
Gallia County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Village Commission. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 24, 2005



**Auditor of State
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

VILLAGE OF THE CITY OF GALLIPOLIS

GALLIA 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 5, 2005**