



**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, 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 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 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 16, 2004

**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, 2003**

	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	\$1,750,994	\$241,121	\$	\$	\$	\$1,992,115
Intergovernmental Receipts	176,831	301,037		86,885		564,753
Charges for Services	288,470	52,480				340,950
Fines, Licenses, and Permits	355,741	130,554		51,579		537,874
Earnings on Investments	22,784	29,690		6,031	279	58,784
Miscellaneous	45,182	245,025		750		290,957
Total Cash Receipts	2,640,002	999,907		145,245	279	3,785,433
Cash Disbursements:						
Current:						
Security of Persons and Property	871,829	113,310				985,139
Public Health Services	2,607	89,103				91,710
Leisure Time Activities	100,500	4,345			1,045	105,890
Community Environment	87,881					87,881
Transportation	64,713	213,521		250,020		528,254
General Government	1,214,018	63,359		19,139		1,296,516
Debt Service:						
Principal Payments			339,219			339,219
Interest Payments			74,720			74,720
Capital Outlay	29,379	82,154		153,367		264,900
Total Cash Disbursements	2,370,927	565,792	413,939	422,526	1,045	3,774,229
Total Cash Receipts Over/(Under) Cash Disbursements	269,075	434,115	(413,939)	(277,281)	(766)	11,204
Other Financing Receipts/(Disbursements):						
Sale of Bonds or Notes			235,000	268,844		503,844
Transfers-In	56,149	110,386	178,939	84,494		429,968
Advances-In	85,830	6,767		37,500		130,097
Transfers-Out	(219,875)	(258,713)		(10,450)		(489,038)
Advances-Out	(44,267)	(3,500)		(82,330)		(130,097)
Total Other Financing Receipts/(Disbursements)	(122,163)	(145,060)	413,939	298,058		444,774
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	146,912	289,055	0	20,777	(766)	455,978
Fund Cash Balances, January 1	518,437	736,245		165,245	8,396	1,428,323
Fund Cash Balances, December 31	\$665,349	\$1,025,300	\$0	\$186,022	\$7,630	\$1,884,301
Reserves for Encumbrances, December 31	\$14,526	\$81,701	\$0	\$11,943	\$983	\$109,153

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, 2003**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$2,643,154	\$	\$	\$2,643,154
Miscellaneous	11,148			11,148
Total Operating Cash Receipts	<u>2,654,302</u>			<u>2,654,302</u>
Operating Cash Disbursements:				
Personal Services	1,087,440			1,087,440
Transportation	2,647			2,647
Contractual Services	661,612			661,612
Supplies and Materials	220,400			220,400
Capital Outlay	298,920			298,920
Total Operating Cash Disbursements	<u>2,271,019</u>			<u>2,271,019</u>
Operating Income/(Loss)	<u>383,283</u>			<u>383,283</u>
Non-Operating Cash Receipts:				
Interest	47,894			47,894
Other Non-Operating Receipts	4,413		1,175,160	1,179,573
Total Non-Operating Cash Receipts	<u>52,307</u>		<u>1,175,160</u>	<u>1,227,467</u>
Non-Operating Cash Disbursements:				
Debt Service: Principal	423,748			423,748
Debt Service: Interest	202,639			202,639
Other Non-Operating Cash Disbursements	841		1,175,376	1,176,217
Total Non-Operating Cash Disbursements	<u>627,228</u>		<u>1,175,376</u>	<u>1,802,604</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(191,638)		(216)	(191,854)
Transfers-In	128,763			128,763
Transfers-Out	(69,693)			(69,693)
Net Receipts Over/(Under) Disbursements	(132,568)		(216)	(132,784)
Fund Cash Balances, January 1	<u>1,591,070</u>	<u>22,442</u>	<u>115,533</u>	<u>1,729,045</u>
Fund Cash Balances, December 31	<u>\$1,458,502</u>	<u>\$22,442</u>	<u>\$115,317</u>	<u>\$1,596,261</u>
Reserve for Encumbrances, December 31	<u>\$133,355</u>	<u>\$0</u>	<u>\$0</u>	<u>\$133,355</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, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of the City of Gallipolis, Gallia County (the Village), is a charter municipal corporation, incorporated under the laws of the State of Ohio. The Village is directed by a publicly-elected five-member Commission and full-time City Manager. The Village provides water and sewer utilities, park operations, and police service. 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 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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

U.S. Treasury Notes are valued at cost. Money market funds are recorded at share values reported by the mutual fund.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Fund:

Debt Service Fund – This fund was established to account for payment on the Village's governmental debt issues.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Eastern Avenue Flood Mitigation Route Fund - This fund was established to account for funds received from the Federal Government to be expended for construction costs on the Eastern Avenue Flood Mitigation Route Project.

5. 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 is used to account for the provision of water services to customers on the Village system.

Water Pollution Control (WPC) Fund – This fund is used to account for the provision of sanitation services to customers on the Village system.

VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified 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 Nonexpendable 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 transferred to the Cemeteries Fund to be 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 City 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 2003 budgetary activity appears in Note 3.

VILLAGE OF THE CITY OF GALLIPOLIS
GALLIA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(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. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31, 2003 was as follows:

	2003
Demand Deposits	<u>\$3,280,145</u>
U.S. Treasury Bill	155,473
Money Market Funds	<u>44,944</u>
Total Investments	<u>200,417</u>
Total Deposits and Investments	<u>\$3,480,562</u>

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

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities. Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2003 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,773,416	\$2,781,981	\$8,565
Special Revenue	1,118,485	1,117,060	(1,425)
Debt Service	413,939	413,939	0
Capital Projects	536,083	536,083	0
Enterprise	2,846,741	2,835,372	(11,369)
Fiduciary	279	279	0
Total	\$7,688,943	\$7,684,714	(\$4,229)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,804,181	\$2,649,595	\$154,586
Special Revenue	1,015,567	909,706	105,861
Debt Service	413,939	413,939	0
Capital Projects	531,227	527,249	3,978
Enterprise	3,382,057	3,101,295	280,762
Fiduciary	2,200	2,028	172
Total	\$8,149,171	\$7,603,812	\$545,359

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Commission. 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 THE CITY OF GALLIPOLIS
GALLIA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on gross salaries, wages and other personal service compensation earned by residents of the Village and on the earnings of nonresidents working within the Village. Residents of the Village are granted a credit for taxes paid to other municipalities.

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. By Village ordinance, income tax proceeds are credited to the General Fund. Income tax revenue for 2003 was \$ 1,563,342.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>	<u>Admin Fee</u>
Ohio Water Development Authority Loan	\$1,141,933	10.71%	
Ohio Public Work Commission Loan	60,183	0.00%	
Sewer Mortgage Revenue Refunding Bonds	755,000	5.1%-5.625%	
State Infrastructure Bank Loan	815,881	3.00%	0.25%
Fire Station Bond	587,455	4.99%	
Pumper/Tanker Fire Truck Bond Anticipation Note	217,887	4.48%	
Municipal Building Bond Anticipation Note	235,000	1.75%	
Vehicle Bond	191,750	4.10%	
Fire Truck Bond Anticipation Note, 4th Renewal	389,140	4.68%	
Total	<u>\$4,394,229</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 will commence with the January 1, 2004 payment and continue through the maturity date of January 1, 2012.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

6. DEBT (Continued)

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, 2003, the balance of these accounts was \$200,580, 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.

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 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 March 15, 2017.

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 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.

The Municipal Building Bond Anticipation Note 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 13, 2004.

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, 2002, the Village had received \$815,881 in loan proceeds. As of June 12, 2004, the total amount owed equaled \$829,139. Repayment of this loan is not expected to begin until December, 2004.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

6. DEBT (Continued)

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

Year Ending December 31	OWDA Loan	OPWC Loan	Mortgage Revenue Bonds	State Infrastructure Bank Loan	Bonds	Bond Anticipation Notes
2004	\$422,570	\$9,259	\$146,680	\$25,733	\$71,564	\$310,128
2005	435,282	9,259	151,115	51,465	71,564	71,015
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
2009-2013		13,888	153,156	257,326	261,623	355,077
2014-2018				257,326	197,490	75,895
2019-2023				257,326	197,490	
2024-2028				205,861	197,490	
2029-2031					118,495	
Total	<u>\$1,307,207</u>	<u>\$60,183</u>	<u>\$909,636</u>	<u>\$1,209,432</u>	<u>\$1,330,408</u>	<u>\$1,025,160</u>

7. CONTRACTUAL COMMITMENTS

As of December 31, 2003, the Village had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Dell, Inc	Server Replacement	\$6,633
Sanderson CMI	Software Upgrade	\$45,079
Henschen & Associates	Court Computer Upgrade	\$28,710
Chemco Equipment	Water Plant Lime Slaker	\$76,556

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003. The Village has paid all contributions required through December 31, 2003.

Effective August 3, 1992, all volunteer firefighters and reserve police officers, not otherwise covered by another retirement system, are covered by Social Security. The Village's liability is 6.5% of wages paid.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

9. RISK MANAGEMENT

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.

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

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.

<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>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

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 in a lawsuit. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter 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.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
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 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, 2003, and have issued our report thereon dated September 16, 2004. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 16, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 16, 2004.

Village of the City of Gallipolis
Gallia County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

Betty Montgomery
Auditor of State

September 16, 2004



**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 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
NOVEMBER 18, 2004**