PIQUA IMPROVEMENT CORPORATION
(a not-for-profit corporation)
Piqua, Ohio

Audited Financial Statements--
Supplementary Information

December 31, 2004
Revised October 25, 2005

Auditor of State
Betty Montgomery

Board of Directors
Piqua Improvement Corporation
Piqua, Ohio

We have reviewed the *Independent Auditor's Report* of the Piqua Improvement Corporation, Miami County, prepared by Ellen S. Fodge, CPA, for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 31, 2005

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Mr. Anthony Char, Interim Executive Director
Piqua Improvement Corporation
Piqua, Ohio

I have audited the accompanying statement of financial position of the Piqua Improvement Corporation, (a non-profit Corporation) as of December 31, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 than I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Piqua Improvement Corporation as of December 31, 2004 and the changes in its net assets, and its cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* I have also issued my report dated June 30, 2005, on my consideration of the Piqua Improvement Corporation's internal control over financial reporting and on my 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 my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole . The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ellen S Fodge

Ellen S. Fodge, CPA
June 30, 2005
Revised October 25, 2005

PIQUA IMPROVEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2004

ASSETS

Current assets:		
Cash		$45,250
Contributions receivable - City		11,000
Prepaid insurance		16,861
Total current assets		73,111
Property and equipment:		
Buildings	200,325	
Office equipment	30,426	
	230,751	
Less: accumulated depreciation	74,090	
Net property and equipment		156,661
TOTAL ASSETS		$229,772
Current liabilities:		
Contribution payable - library		10,000
Total current liabilities		10,000
Net assets - unrestricted		219,772
TOTAL LIABILITIES AND NET ASSETS		$229,772

See accountant's audit report and accompanying notes.

PIQUA IMPROVEMENT CORPORATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2004

REVENUES AND SUPPORT:		Unrestricted
Contributions, City of Piqua	$15,600	
Contributions-in kind, City of Piqua	267,398	
Total contributions - City of Piqua		$282,998
Contributions		27,900
Other income		18
Total revenues and support		310,916
EXPENSES:		
General and administrative expenses		16,830
Program expenses		312,174
Total expenses		329,004
Change in unrestricted net assets		(18,088)
Unrestricted net assets, beginning of year		237,860
Unrestricted net assets, end of year		$219,772

See accountant's audit report and accompanying notes.

PIQUA IMPROVEMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

Cash flows provided by operating activities:	
Change in net assets	($18,088)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,365
(Increase) decrease in assets:	
Prepaid expenses	(9)
Increase (decrease) in liabilities:	
Contributions receivable - city	(11,000)
Deferred pledge revenue	(11,450)
Contributions payable - library	10,000
Net cash provided by operating activities	(24,182)
Cash flows provided by investment activities:	
Net cash provided by investment activities	0
Cash flows provided by financing activities	
Net cash provided by financing activities	0
Net increase in cash	(24,182)
Cash, beginning of the year	69,432
Cash, end of the year	$45,250

See accountant's audit report and accompanying notes.

Piqua Improvement Corporation
Notes to the Financial Statements
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS – The Piqua Improvement Corporation is incorporated as a not-for-profit corporation under the laws of the State of Ohio for the purpose of furthering economic development in the City of Piqua.

BASIS OF ACCOUNTING - The financial statements are prepared on the accrual basis of accounting.

BASIS OF PRESENTATION – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

USE OF ESTIMATES – The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUES – The Corporation is funded primarily by pledges from local businesses and contributions from the City of Piqua.

FUNCTIONAL ALLOCATION OF EXPENSES – The costs of providing the various programs have been summarized on a functional basis in the financial statements. Where identifiable, costs are charged directly to the program for which they are incurred. Costs that benefit more than one program are allocated among those programs based on estimates made by management. Wages and depreciation are amounts allocated based upon estimated program usage or consumption. Hotel expenses, advertising, marketing and printing are directly charged amounts.

INCOME TAXES – The Corporation is exempt from federal income tax under Section 501 c (6) of the Internal Revenue Code, and does not currently conduct any activities, which would result in the imposition of unrelated business income tax.

NOTE 2 – PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment is stated at cost. Major expenditures and those which substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are charged to expense when incurred. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in revenue. Donated property is capitalized at a value nearest to estimated fair value at date of receipt.

The costs of property, equipment and building are depreciated over their estimated useful lives. The following guideline years have been used in computing depreciation:

Buildings	39 years
Office Equipment	7 years

Depreciation is computed on the straight-line basis for financial reporting purposes. Depreciation expense for 2004 was $6,365.

NOTE 3 – PREPAID EXPENSES

Prepaid expenses consist primarily of an insurance premium payment for the hotel in the amount of $19,906. One twelfth is expensed each month until it becomes due again in November, 2005. The City of Piqua contributed $11,000 to the Corporation to assist in payment of the premium which was received in early January, 2005. The City's contribution toward the premium has been shown as an accrued contribution as of December 31, 2004.

NOTE 4 – CONTRIBUTIONS PAYABLE - LIBRARY

In November, 2004, the Board of Directors voted and approved a contribution of $10,000 to the Hotel Library Legacy Alliance Board toward its fundraising study in 2005. It was intended that $5,000 would be paid in two installments in early 2005.

NOTE 5 – CONTINGENT LIABILITY

The City of Piqua maintains a $40,000 note receivable on its books of account which becomes a liability to the Piqua Improvement Corporation upon the sale of its property, the Fort Piqua Hotel. This note bears no interest. Each December, if there is no sale, the balance of the note is reduced by $4,000 on the City's books. As of December 31, 2004 the open balance on the City's books was $20,000.

NOTE 6 – CONTRIBUTIONS FROM THE CITY OF PIQUA

The City of Piqua provides in-kind and cash contributions to the Piqua Improvement Corporation. In-kind contributions include expenses paid directly to vendors by the City on behalf of the Corporation and an allocated portion of the salary of the Corporation's Executive Director who is also the Economic Development Director for the City of Piqua.

Cash contributions include payments to the Piqua Improvement Corporation to assist in the maintenance, repair, insurance coverage and professional fees of the Fort Piqua Hotel and memberships in other area economic development organizations.

During 2004, The City directly paid providers a total amount of $258,386.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Executive Director of the Corporation is the Economic Development Director and full-time employee of the City of Piqua. An estimate of the Executive Director's wage allocated to the Piqua Improvement Corporation has been made for $9,012. It has been recorded as an in-kind City contribution.

During 2005, the Piqua Improvement Corporation has entered an arrangement as a manager member of a limited liability partnership created to encourage funding sources for development of the hotel property.

NOTE 8 – LEASE ARRANGEMENTS

Piqua Improvement Corporation, as owner of the Fort Piqua Hotel, is party to a lease in perpetuity on a small portion of the hotel property which adjoins a local business. The lessee paid $1.00 in rent at the origination of the lease agreement and there are no further rents due.

SUPPLEMENTARY INFORMATION

PIQUA IMPROVEMENT CORPORATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended December 31, 2004

GENERAL AND ADMINISTRATIVE EXPENSES:

Wages, in kind	$9,012
Bank charges	304
Depreciation	1,228
Professional fees	3,265
Insurance, directors and officers	1,963
Postage	296
Meetings	614
Other	148
Total general and administrative expenses	16,830

PROGRAM EXPENSES:

Hotel insurance, property tax, other	25,526
Hotel renovation profssional fees	257,270
Contributions for library funding study	10,000
Depreciation-hotel	5,137
Dues and subscriptions	928
Advertising and marketing	12,945
Newsletters	368
Total program expenses	$312,174

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The Board of Directors and Mr. Tony Char, Interim Executive Director
Piqua Improvement Corporation
Piqua, Ohio

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS *(REPORTABLE CONDITIONS, REPORTABLE INSTANCES OF NONCOMPLIANCE, AND OTHER MATTERS IDENTIFIED.)*

I have audited the financial statements of the Piqua Improvement Corporation (the Corporation) as of the year ended December 31, 2004 and have issued my report thereon dated June 30, 2005. I conducted my 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..

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Corporation's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 02-1.

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 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. My 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, I consider the reportable condition described in the accompanying schedule of findings item 02-1 below to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of the Corporation's Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Ellen S. Fodge

Ellen S. Fodge, CPA
June 30, 2005
Revised October 25, 2005

THE PIQUA IMPROVEMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of the Piqua Improvement Corporation (the Corporation.)
2. One reportable condition disclosed during the audit of the financial statements is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This condition is considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Corporation were disclosed during the audit.

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

02-1 Segregation of Duties

Condition: Segregation of duties over receipts and disbursements are not adequate to provide reasonable assurance that the objectives of internal control are achieved. While some compensating controls (listed below) have been instituted, I have not observed that they have been effective with regard to balance sheet accounts and accounting for contributions from the City of Piqua.

The Corporation has instituted the following compensating controls:

1. approval of an annual budget against which actual monthly results are reported during each Board meeting
2. financial reports are distributed at each board meeting and approved
3. the Executive Director prints checks to pay expenses, a board member signs them
4. minutes of Board meetings indicate Board discussion and approval of certain near term marketing expenses that were planned in the budget

Reasons that compensating controls are not adequate:

1 I did not observe that the December 31, 2003 recommended auditor corrections and adjusting entries were entered into the books of account, so the beginning balances for 2004 prepaid expenses, accumulated depreciation, accounts payable and deferred pledge revenue represented inaccurate amounts. Also, in-kind contributions by the City of Piqua during 2004 were not recorded. These beginning balances were corrected in March, 2005 in the books of account by the auditor with the permission and understanding of the executive director. While the former executive director understood the purpose and financial impact of recommended auditor adjustments, journal entries were not made due to his

unfamiliarity with the bookkeeping software and the desire to avoid presenting incorrect financial reports.
Notations on some bank statements and a changing checking account balance on the monthly financial reports indicate that there is an amount of monitoring of the checking account, however, there were no reconciliations performed.

2. The general ledger reports show that the Peachtree accounting system has been used primarily as a check register since there is a lack of activity in certain balance sheet accounts. Financial reports appear to have been separately prepared outside of the accounting system.

Effect: Because of the lack of segregation of duties and inadequate compensating controls, it is possible that errors or irregularities could occur and not be detected in a timely manner.

Recommendations:
It would not appear to be cost effective for the Corporation to hire sufficient additional staff to achieve full segregation of duties. However, several additional compensating controls could be implemented. See below for suggestions. In determining which compensating controls to institute, the Board of Directors would have to weigh the costs of such controls against the benefit to be gained.

1. Obtain assistance in correcting Peachtree books of account for auditor-recommended correcting and adjusting entries. Set up a consistent set of reports for each month that can be tied to the books of account for balance sheet accounts, revenues and expenses.
2. Set up a method in the accounting system to record in-kind contributions and expenses.
3. Establish a communication process with the City of Piqua to determine when in-kind contributions have been made; i.e. for payments made directly to vendors by the City of Piqua, an invoice copy could be sent to the Corporation noted as "paid."
4. A board member (Treasurer) could reconcile the checkbook each month.
5. Designate a certain expense level above which two signatures will be required on checks following an evaluation of the expense documentation.
6. Ask a board member to receive and review the bank statements and canceled checks before sending them to the Corporation's Executive Director.

Management Responses:

The Executive Director on staff during 2004 left the organization in May of 2005 and has been replaced by an Interim Executive Director. These responses are a summary of the Interim Executive Director's discussion with the auditor regarding findings of the weaknesses in internal controls.

1. An administrative assistant has been hired to help with bookkeeping, reporting and other tasks for the executive director. This person will provide some separation of duties that have been recommended by the auditor. These duties include payment of expenses and reconciliation of the checking account on a regular basis.

2. The Interim Executive Director brought the Treasurer of the Board into direct contact with the financial reports and changed Board contact for financial information from himself to the Treasurer. The Treasurer is now responsible for reviewing the financial reports monthly and presenting them to the Board, thus bringing in another individual to help oversee financial activities.

3. The Interim Executive Director changed the reports used at Board meetings from a separate Excel file to reports obtained directly from the Peachtree software system. The Excel spreadsheets that had been used were never updated for recommended audit adjusting entries and carried forward old errors. The Peachtree system now contains reconciled accounts and audit adjusting entries and is the most accurate source available to this organization for producing financial reports.

4. The Interim Executive Director obtained a Board resolution that changed the following; *all* checks require two signatures, one of which can be the Executive Director, the other can be the Treasurer, President or certain other designated board members. The Interim Executive Director is limited to expenses of $500.00 per category annually without prior board approval.

5. The Interim Executive Director asked the auditor to assist in the mechanical process of recording audit adjusting entries in Peachtree and to ensure that the Peachtree system matches the audit report. The Interim Executive Director fully understands the journal entries and why they are recommended but is somewhat unfamiliar with Peachtree.

Mr. Tony Char
Interim Executive Director

Auditor of State
Betty Montgomery

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PIQUA IMPROVEMENT CORPORATION

MIAMI 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 10, 2005