



**Auditor of State
Betty Montgomery**

VILLAGE OF FORT RECOVERY
MERCER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Fort Recovery
Mercer County
P.O. Box 340
201 South Main Street
Fort Recovery, Ohio 45846

To the Village Council:

We have audited the accompanying financial statements of the Village of Fort Recovery, Mercer County (the Village), as of and for the years ended December 31, 2002 and 2001. 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 as of December 31, 2002 and 2001, 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 August 19, 2003 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 and 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

August 19, 2003

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types				Fiduciary Fund	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Property Tax and Other Local Taxes	\$98,412	\$75,427			\$380,151	\$553,990
Intergovernmental Receipts	111,494	113,411		82,234		307,139
Special Assessments	14,102					14,102
Charges for Services	50	12,674			2,140	14,864
Fines, Licenses, and Permits	3,530					3,530
Earnings on Investments	5,169	261				5,430
Miscellaneous	4,033	16,050				20,083
Total Cash Receipts	236,790	217,823		82,234	382,291	919,138
Cash Disbursements:						
Current:						
Security of Persons and Property	93,873					93,873
Public Health Services	5,281	16,250				21,531
Leisure Time Activities		31,737				31,737
Community Environment	127					127
Basic Utility Services	80					80
Transportation		104,918				104,918
General Government	155,801				54,090	209,891
Debt Payments		14,344	40,000			54,344
Capital Outlay	18,218	193,700		194,544	3,888	410,350
Total Cash Disbursements	273,380	360,949	40,000	194,544	57,978	926,851
Total Receipts Over/(Under) Disbursements	(36,590)	(143,126)	(40,000)	(112,310)	324,313	(7,713)
Other Financing Receipts and (Disbursements):						
Other Debt Proceeds		41,092		110,000		151,092
Transfers-In	48,218	73,114	39,800	1,912		163,044
Transfers-Out	(822)				(205,438)	(206,260)
Other Uses	(1,155)	(2,140)			(29,385)	(32,680)
Total Other Financing Receipts/(Disbursements)	46,241	112,066	39,800	111,912	(234,823)	75,196
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	9,651	(31,060)	(200)	(398)	89,490	67,483
Fund Cash Balances, January 1	5,819	68,255	28,200	546	21,255	124,075
Fund Cash Balances, December 31	\$15,470	\$37,195	\$28,000	\$148	\$110,745	\$191,558

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

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Cash Receipts:			
Charges for Services	\$338,550		\$338,550
Miscellaneous	4,187	121	4,308
	<u>342,737</u>	<u>121</u>	<u>342,858</u>
Operating Cash Disbursements:			
Personal Services	156,602		156,602
Travel Transportation	811		811
Contractual Services	63,490		63,490
Supplies and Materials	47,818		47,818
Capital Outlay	63,521		63,521
	<u>332,242</u>		<u>332,242</u>
Operating Income	<u>10,495</u>	<u>121</u>	<u>10,616</u>
Non-Operating Cash Receipts/Disbursements:			
Other Non-Operating Receipts	7,654		7,654
Debt Payments	(58,123)		(58,123)
Other Non-Operating Disbursements	(1,535)		(1,535)
	<u>(52,004)</u>		<u>(52,004)</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(41,509)	121	(41,388)
Transfers-In	89,446		89,446
Transfers-Out	(46,230)		(46,230)
Net Receipts Over/(Under) Disbursements	1,707	121	1,828
Fund Cash Balances, January 1	<u>217,234</u>	<u>3,367</u>	<u>220,601</u>
Fund Cash Balances, December 31	<u><u>\$218,941</u></u>	<u><u>\$3,488</u></u>	<u><u>\$222,429</u></u>

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

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types				Fiduciary Fund	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Property Tax and Other Local Taxes	\$94,019	\$76,862			\$336,402	\$507,283
Intergovernmental Receipts	85,871	110,590		275,003		471,464
Special Assessments	5,625					5,625
Charges for Services	110	12,788				12,898
Fines, Licenses, and Permits	421					421
Earnings on Investments	5,419	322				5,741
Miscellaneous	10,325	14,810				25,135
Total Cash Receipts	201,790	215,372		275,003	336,402	1,028,567
Cash Disbursements:						
Current:						
Security of Persons and Property	89,263	15,047				104,310
Public Health Services	5,275	22,524				27,799
Leisure Time Activities		33,547				33,547
Community Environment	71					71
Basic Utility Services	70					70
Transportation		99,833				99,833
General Government	165,227				31,799	197,026
Debt Payments			146,228			146,228
Capital Outlay	14,598	97,586		292,829	1,258	406,271
Total Cash Disbursements	274,504	268,537	146,228	292,829	33,057	1,015,155
Total Receipts Over/(Under) Disbursements	(72,714)	(53,165)	(146,228)	(17,826)	303,345	13,412
Other Financing Receipts and (Disbursements):						
Transfers-In	76,147	37,982	137,928	17,681		269,738
Transfers-Out	(983)	(929)			(290,826)	(292,738)
Other Sources	44				294	338
Other Uses	(1,502)	(295)		(44)	(13,248)	(15,089)
Total Other Financing Receipts/(Disbursements)	73,706	36,758	137,928	17,637	(303,780)	(37,751)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	992	(16,407)	(8,300)	(189)	(435)	(24,339)
Fund Cash Balances, January 1	4,827	84,662	36,500	735	21,690	148,414
Fund Cash Balances, December 31	\$5,819	\$68,255	\$28,200	\$546	\$21,255	\$124,075

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

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Non-Expendable Trust</u>	
Operating Cash Receipts:			
Charges for Services	\$328,762		\$328,762
Miscellaneous	228		228
	<hr/>		<hr/>
Total Operating Cash Receipts	328,990		328,990
	<hr/>		<hr/>
Operating Cash Disbursements:			
Personal Services	147,648		147,648
Travel Transportation	396		396
Contractual Services	46,445		46,445
Supplies and Materials	49,195		49,195
Capital Outlay	43,677		43,677
	<hr/>		<hr/>
Total Operating Cash Disbursements	287,361		287,361
	<hr/>		<hr/>
Operating Income	41,629		41,629
	<hr/>		<hr/>
Non-Operating Cash Receipts/Disbursements:			
Other Non-Operating Receipts	12,053	223	12,276
Debt Payments	(57,866)		(57,866)
Other Non-Operating Disbursements	(1,491)		(1,491)
	<hr/>		<hr/>
Total Non-Operating Cash Receipts/Disbursements	(47,304)	223	(47,081)
	<hr/>		<hr/>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(5,675)	223	(5,452)
	<hr/>		<hr/>
Transfers-In	68,959		68,959
Transfers-Out	(45,959)		(45,959)
	<hr/>		<hr/>
Net Receipts Over/(Under) Disbursements	17,325	223	17,548
	<hr/>		<hr/>
Fund Cash Balances, January 1	199,908	3,144	203,052
	<hr/>		<hr/>
Fund Cash Balances, December 31	\$217,233	\$3,367	220,600
	<hr/> <hr/>		<hr/> <hr/>

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

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Fort Recovery, Mercer 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, park operations and police services.

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

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.

Certificates of deposit are valued at cost.

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 Fund

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

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

Parks and Recreation Fund – This fund receives donations and concession stand revenues for maintaining the Village parks.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cemetery Fund - This fund receives revenues from the sale of plots and other services related to burials for maintaining the Cemetery.

Street Levy Fund - This fund receives tax monies from Village levies for repairing, maintaining, and constructing streets within the Village.

Sewer Levy Fund - This fund receives tax monies from Village levies for repairing, maintaining, and constructing sewer lines within 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 funds:

Industrial Park FHA Debt Service Fund - This fund is used to account for retirement of bonds used to pay off a loan for the purchase of land for an industrial park site.

General Purpose Note Retirement Debt Service Fund - This fund is used to account for retirement of notes used to pay off a loan to balance the General Fund due to excess expenditures.

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 funds:

East Pump Station Grant Fund - This fund receives grant funds for improvements to a pump station for providing water and sewer services to the Village.

Hickory Circle Storm Sewer Project Fund - This fund receives funding for reconstructing the Hickory Circle Street storm system.

Center Street Grant Fund - This fund receives grant funds for the reconstruction of Center Street.

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 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.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 fund:

Local Income Tax Fund – This expendable trust fund receives local income tax from residents to be used by the Village in accordance with its local income tax ordinance and amendments.

E. Budgetary Process

The Ohio Revised Code requires that each fund 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 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. 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.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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 was as follows:

	2002	2001
Demand deposits	\$390,924	\$323,752
Certificates of Deposit	23,063	20,923
Total deposits	\$413,987	\$344,675

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

Fund Type	Receipts	Receipts	Variance
General	\$257,829	\$285,008	\$27,179
Special Revenue	251,952	332,029	80,077
Debt Service	31,500	39,800	8,300
Capital Project	267,000	194,146	(72,854)
Expendable Trust	380,345	382,291	1,946
Enterprise	410,839	439,837	28,998
Non-Expendable	223	121	(102)
Total	\$1,599,688	\$1,673,232	\$73,544

2002 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$297,933	\$275,357	\$22,576
Special Revenue	356,974	363,089	(6,115)
Debt Service	68,000	40,000	28,000
Capital Project	227,500	194,544	32,956
Expendable Trust	369,655	292,801	76,854
Enterprise	573,622	438,130	135,492
Non-Expendable Trust	223	0	223
Total	\$1,893,907	\$1,603,921	\$289,986

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$229,912	\$277,981	\$48,069
Special Revenue	246,650	253,354	6,704
Debt Service	36,500	137,928	101,428
Capital Project	356,112	292,684	(63,428)
Expendable Trust	325,300	336,696	11,396
Enterprise	429,450	410,002	(19,448)
Non-Expendable	200	223	23
Total	\$1,624,124	\$1,708,868	\$84,744

2001 Budget vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$276,874	\$276,989	(\$115)
Special Revenue	331,312	269,761	61,551
Debt Service	73,000	146,228	(73,228)
Capital Project	321,846	292,873	28,973
Expendable Trust	346,990	337,131	9,859
Enterprise	628,373	392,677	235,696
Non-Expendable Trust	0	0	0
Total	\$1,978,395	\$1,715,659	\$262,736

Contrary to Ohio Revised Code Section 5705.41 (B), actual expenditures exceeded appropriated amounts.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding 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 payments, the first half is due December 31. The second half payment is due the following June 20.

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 FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Mortgage/Revenue Bonds	\$591,390	5.00 - 7.875%
Real Estate Acquisition Bonds	330,545	5.00%
Backhoe Loan	26,748	4.80%
Ohio Public Works Commission Loan	110,000	0.00%
Total	\$1,058,683	

Mortgage Revenue Bonds are for water plant improvements. Revenue of the water plant is pledged to pay the debt.

Real Estate Acquisition Bonds were issued for retirement of a loan for the purchase of land for an industrial park and retention pond thereon. These bonds are secured by mortgage on real estate.

The Village financed the purchase of a backhoe in the form of a loan.

The Ohio Public Works Commission Loan is for construction of the Hickory Circle storm sewer project. The loan is to be repaid from the general revenue of the Village.

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

	Mortgage Revenue Bonds	Real Estate Acquisition Bonds	Ohio Public Works Commission Loan	Backhoe Loan
Year ending December 31:				
2003	\$46,451	\$29,270	\$2,750	\$14,344
2004	46,722	29,270	5,500	14,344
2005	46,836	29,245	5,500	0
2006	46,000	29,295	5,500	0
2007	46,056	29,315	5,500	0
Subsequent	743,771	497,755	85,250	0
Total	\$975,836	\$644,150	\$110,000	\$28,688

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF 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 2002 and 2001, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. For 2002 and 2001, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2002 and 2001 generally protect against individual losses exceeding \$150,000 for policies issued prior to April 1, 2000; \$100,000 for policies issued between April 1, 2000 and March 31, 2002; and \$125,000 for policies issued April 1, 2002 or later.

Property coverage contracts protect against losses, subject to a deductible of \$50,000, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool cedes reinsurance to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Assets	\$1,852,060	\$3,354,251
Liabilities	<u>(3,627,321)</u>	<u>(4,851,866)</u>
Retained deficit	<u>(\$1,775,261)</u>	<u>(\$1,497,615)</u>

9. CONTINGENT LIABILITIES

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.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Fort Recovery
Mercer County
P.O. Box 340
201 South Main Street
Fort Recovery, Ohio 45846

To the Village Council:

We have audited the accompanying financial statements of the Village of Fort Recovery, Mercer County (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated August 19, 2003. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated August 19, 2003.

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 August 19, 2003.

Village of Fort Recovery
Mercer 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

August 19, 2003

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002- 001

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Budgetary expenditures (actual expenditures plus encumbrances) exceeded appropriations in the General Fund and Note Retirement Fund at the end of fiscal year 2001. The amount in General Fund was immaterial, however the In the Note Retirement fund budgetary expenditures exceeded appropriations by \$73,228 (or 101%). Also, per comparison of budgetary expenditures and appropriations at the legal level of control, there were significant variances noted at the end of October 2001 in the Law Enforcement Trust Fund, Park Recycling Fund and East Pump Station Fund.

Appropriations should be modified whenever it becomes apparent that budgetary expenditures exceed appropriated amounts in total and/or at the legal level of control.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30254-001	ORC Section 5735.27 (A)(1) and (A)(2) - Incorrect posting of gas tax monies	Yes	
2000-30254-002	ORC Section 5705.41 (D) - No prior certification of funds	Partially	By using blanket purchase orders and then and now certificates the number of incidents were reduced and the citation was moved to the management letter.



**Auditor of State
Betty Montgomery**

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VILLAGE OF FORT RECOVERY

MERCER 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
SEPTEMBER 23, 2003**