



Dave Yost • Auditor of State

VILLAGE OF FORT RECOVERY
MERCER COUNTY

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Dave Yost • Auditor of State

Village of Fort Recovery
201 South Main Street
P. O. Box 340
Fort Recovery, Ohio 45846-0340

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 12, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Fort Recovery
201 South Main Street
P. O. Box 340
Fort Recovery, Ohio 45846-0340

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 year ended December 31, 2011. 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011, or its changes in financial position, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Fort Recovery, Mercer County, as of December 31, 2011, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Village of Fort Recovery, Mercer County adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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.

We conducted our audit to opine on the Village's financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Dave Yost
Auditor of State

July 12, 2012

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:						
Property and Other Local Taxes	\$135,050	\$50,701				\$185,751
Municipal Income Tax	865,955					865,955
Intergovernmental	80,247	124,416				204,663
Special Assessments	90,215					90,215
Charges for Services	55,201					55,201
Fines, Licenses and Permits	1,941					1,941
Earnings on Investments	4,312	91			\$34	4,437
Miscellaneous	8,057	3,549		\$150		11,756
Total Cash Receipts	<u>1,240,978</u>	<u>178,757</u>		<u>150</u>	<u>34</u>	<u>1,419,919</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	130,584					130,584
Public Health Services	39,109					39,109
Leisure Time Activities	128,611					128,611
Community Environment	2,986					2,986
Basic Utility Services	50					50
Transportation		151,667				151,667
General Government	323,558			21,775		345,333
Capital Outlay	43,922	54,784				98,706
Debt Service:						
Principal Retirement			\$13,848			13,848
Total Cash Disbursements	<u>668,820</u>	<u>206,451</u>	<u>13,848</u>	<u>21,775</u>		<u>910,894</u>
Excess of Receipts Over (Under) Disbursements	<u>572,158</u>	<u>(27,694)</u>	<u>(13,848)</u>	<u>(21,625)</u>	<u>34</u>	<u>509,025</u>
Other Financing Receipts (Disbursements):						
Sale of Capital Assets		9,525				9,525
Transfers In		22,680	9,232			31,912
Transfers Out	(271,912)					(271,912)
Advances In	26,484	6,484				32,968
Advances Out	(26,484)	(6,484)				(32,968)
Other Financing Sources	61,075					61,075
Total Other Financing Receipts (Disbursements)	<u>(210,837)</u>	<u>32,205</u>	<u>9,232</u>			<u>(169,400)</u>
Net Change in Fund Cash Balances	361,321	4,511	(4,616)	(21,625)	34	339,625
Fund Cash Balances, January 1 (Restated)	<u>1,394,739</u>	<u>155,474</u>	<u>4,616</u>	<u>47,960</u>	<u>4,890</u>	<u>1,607,679</u>
Fund Cash Balances, December 31:						
Non-spendable	134				4,000	4,134
Restricted		159,985				159,985
Committed				26,335		26,335
Assigned	117				924	1,041
Unassigned (Deficit)	1,755,808					1,755,808
Fund Cash Balances, December 31	<u>\$1,756,059</u>	<u>\$159,985</u>	<u>\$0</u>	<u>\$26,335</u>	<u>\$4,924</u>	<u>\$1,947,303</u>

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

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$510,005
Miscellaneous	5,849
Total Operating Cash Receipts	515,854
Operating Cash Disbursements:	
Personal Services	148,196
Contractual Services	68,065
Supplies and Materials	68,775
Other	835
Total Operating Cash Disbursements	285,871
Operating Income (Loss)	229,983
Non-Operating Receipts (Disbursements):	
Property and Other Local Taxes	60,650
Intergovernmental	267,719
Sale of Bonds	1,565,999
Sale of Notes	646,546
Basic Utility Services	(103,562)
Capital Outlay	(1,115,562)
Principal Retirement	(1,693,890)
Interest and Other Fiscal Charges	(20,900)
Total Non-Operating Receipts (Disbursements)	(393,000)
Income (Loss) before Transfers and Advances	(163,017)
Transfers In	240,000
Advances In	20,000
Advances Out	(20,000)
Net Change in Fund Cash Balances	76,983
Fund Cash Balances, January 1 (Restated)	444,304
Fund Cash Balances, December 31	\$521,287

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, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Fort Recovery, Mercer County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park and pool operations, and police services. The Village contracts with Southwest Fire District to receive fire protection services.

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

B. Accounting Basis

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. The Village 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 the Auditor of State prescribes or permits.

C. Deposits and Investments

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

The Village values Certificates of Deposit 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose 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.

Street Levy – this fund receives funds from a street levy that is paid by village residents through their real estate taxes. Funds are used for construction, maintenance and repairs of Village streets.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Funds:

Hickory Circle Debt Service Fund – This fund receives funds from the General fund to fund repayment of this debt.

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:

Industrial Park Improvement Fund – This fund is used to pay for maintenance and park improvements.

5. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Village's programs. The Village had the following significant permanent fund:

Cemetery Trust Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

6. 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.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Sewer User Fee Fund - This fund receives charges for sewer debt repayment. Funds are used for debt repayment.

Water Tower Improvement Fund – This fund receives charges for water tower improvements. Funds are used for water tower improvements.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Village Council 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not properly encumber all commitments required by Ohio law.

A summary of 2011 budgetary activity appears in Note 4.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

H. 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. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS/FUND EQUITY

For fiscal year 2011, the Village reclassified certain funds as required by the revised fund classification guidance in Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had the following effect on fund balances previously reported:

	<u>Fund Balance at December 31, 2010</u>	<u>GASB 54 Change in Fund Structure</u>	<u>Adjusted Fund Balance at December 31, 2010</u>
General	\$1,355,606	\$39,133	\$1,394,739
Special Revenue	247,828	(25,090)	222,738
Enterprise	362,650	(13,927)	348,723
Agency	116	(116)	

Restatement of Fund balance: The restatement of the December 31, 2010 fund balance was required between the Special Revenue, Debt Service, Capital Project and Enterprise Funds due to an error in the classification of funds in the prior audit. The reclassification had the following effect on the fund balances as previously reported by the Village:

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

**2. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS/FUND EQUITY
(Continued)**

	Adjusted Fund Balance at December 31, 2010 (includes GASB 54 changes above)	Change in Fund Structure	Adjusted Fund Balance at December 31, 2010
Special Revenue	\$222,738	(\$67,264)	\$155,474
Capital Project	76,277	(28,317)	47,960
Enterprise	348,723	95,581	444,304

3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2011
Demand deposits	\$ 165,844
Certificates of deposit	1,334,690
Other time deposits (savings and NOW accounts)	968,057
Total deposits	<u>\$2,468,591</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

4. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,302,054	\$1,302,053	(\$ 1)
Special Revenue	217,446	210,962	(6,484)
Debt Service	9,234	9,232	(2)
Capital Projects		150	150
Enterprise	3,296,771	3,296,768	(3)
Permanent	35	34	(1)
Total	<u>\$4,825,540</u>	<u>\$4,819,199</u>	<u>(\$6,341)</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 949,887	\$ 940,849	\$ 9,038
Special Revenue	243,123	206,451	36,672
Debt Service	13,848	13,848	
Capital Projects	25,970	21,775	4,195
Enterprise	3,252,838	3,221,335	31,503
Permanent			
Total	<u>\$4,485,666</u>	<u>\$4,404,258</u>	<u>\$81,408</u>

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.0 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.

7. DEBT

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Mortgage Revenue Bonds	\$1,960,000	3-5%
Ohio Public Works Commission Loans	756,385	0%
Ohio Water Development Authority Loan	38,662	0%
Total	\$2,755,047	

The Berkedia Mortgage Revenue Bonds are for the 1984 Water Plant Construction. Rural Development approved \$774,000 in bonds to the Village for this project. The Village repays the bonds in annual installments per the amortization schedule including interest over 40 years. These bonds are collateralized by Village owned real estate and are repaid with revenue from water revenues.

The Rural Development Mortgage Revenue Bonds are to finance Phase I of the Village's Sewer Separation Project. Rural Development approved \$1,566,000 in bonds collateralized by village owned real estate. These bonds paid off an interim loan which was financed by Ohio Water Development Authority. The village will repay these bonds in annual payments per the amortization schedule, which includes interest. The Village will charge a monthly fee of \$11 paid by each village sewer customer to cover the bond payments in the Sewer User Fee Fund. The Sewer User Fee fund carried a balance of \$77,808 on 12/31/2011. An amount equal to 10% of the annual payment will be set aside each year until an amount equal to the annual payment has been reached.

The Rural Development mortgage revenue bond covenant requires the Village to establish and fund a debt service reserve and surplus fund, included as enterprise funds. The balance in the funds at December 31, 2011 is \$14,000 and \$0, respectively.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

7. DEBT (Continued)

The Ohio Public Works Commission (OPWC) loans include the following:

OPWC loan CMO2K obtained in 2007 in the amount of \$74,642 for the purpose of reconstruction on George Street. This is a 20 year 0% loan with semi-annual payments of \$1,866.05. The payments are made with General Fund monies.

OPWC loan CM26F obtained in 2002 in the amount of \$110,000 for the purpose of the Hickory Circle Storm Sewer Construction. This is a 20 year 0% loan with semi-annual payments of \$2,750. The payments are made with General Fund monies.

OPWC loan CT64M obtained in 2010 for \$1,000,000. \$652,483 of this amount was borrowed for the purpose of Elm & Wayne Street Sewer Reconstruction. This is a 20 year 0% loan with semi-annual payments of \$16,312. The payments are made by the Sewer User Fee fund and the Storm Sewer Levy fund.

Ohio Water Development Authority loan #4621 obtained in 2008 for the purpose of Sewer Separation on Wayne/Elm Street. It is being paid with the Sewer User Fee fund, the Storm Levy Fund and the Sewer Improvement fund. This loan will be paid off in July 2012 with a final payment of \$38,662.

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

<u>Year ending December 31:</u>	<u>Mortgage Revenue Bonds</u>	<u>Ohio Public Works Commission Loans</u>	<u>Ohio Water Development Authority</u>
2012	\$ 114,672	\$ 41,856	\$38,662
2013	114,327	41,856	
2014	114,014	41,856	
2015	114,725	41,856	
2016	114,307	41,856	
2017-2021	571,165	209,281	
2022-2026	432,311	187,281	
2027-2031	338,756	150,543	
2032-2036	338,693		
2037-2041	338,777		
2042-2046	338,703		
2047-2051	338,773		
Total	<u>\$3,269,223</u>	<u>\$756,385</u>	<u>\$38,662</u>

8. RETIREMENT SYSTEMS

The Village's certified full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other 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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011, OP&F participants contributed 10% of their wages. For 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance with Erie Insurance through the Fort Recovery Insurance Agency for the following risks:

• Commercial Property Blanket	\$9,591,922
• General Liability	\$3,000,000
• Products/ Completed Operations	\$3,000,000
• Auto Liability	\$1,000,000
• Wrongful Acts	\$1,000,000
• Commercial Umbrella	\$1,000,000
• Law Enforcement Liability	\$1,000,000

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT		
Direct Program		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$655,825</u>
Total U.S. Department of Agriculture		<u>655,825</u>
Total Federal Assistance		<u><u>\$655,825</u></u>

See accompanying notes to the schedule of federal awards receipts and expenditures.

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Village of Fort Recovery, Mercer County (the Village's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Village to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

Village of Fort Recovery
201 South Main Street
P. O. Box 340
Fort Recovery, Ohio 45846-0340

To the Village Council:

We have audited the financial statements of the Village of Fort Recovery, Mercer County, (the Village) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 12, 2012, wherein we noted the Village adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance and Governmental Fund Type Definitions* for the year ended December 31, 2011. We also noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 12, 2012.

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the finance committee, Village Council, federal awarding agencies and pass-through entities, and others within the Village. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

July 12, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Village of Fort Recovery
201 South Main Street
P. O. Box 340
Fort Recovery, Ohio 45846-0340

To the Village Council:

Compliance

We have audited the compliance of Village of Fort Recovery, Mercer County, (the Village) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Village's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with these requirements.

In our opinion, the Village of Fort Recovery, Mercer County complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the finance committee, Village Council, federal awarding agencies and pass-through entities, and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

July 12, 2012

**VILLAGE OF FORT RECOVERY
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #10.760 Water and Waste Disposal System for Rural Communities
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

Classification of Revenues and Expenditures

MATERIAL WEAKNESS

The following errors were noted in the Village's financial statements:

- The Village posted a \$393,568 sale of note as other debt proceeds in the OWDA interim Finance Fund and a \$243,579 sale of note as sale of bond proceeds in the Wayne/ Elm OPWC Loan Fund. These amounts are approximately 19% of all revenue in the Enterprise funds.
- The Village posted \$20,473 in the Wayne /Elm Village Share Fund (Enterprise Fund) as interest payment instead of principal payments.
- The Special Revenue Fund had \$18,450 of homestead and rollback, KWH tax replacement, and TPP posted as tax instead of intergovernmental revenue. Additionally, a justice assistant grant for \$6,484 was posted as other financing sources instead of intergovernmental revenue. These amounts represent approximately 12% of all revenue in the Special Revenue funds.
- An advance in and an advance out were not included on the financial statements for the Income Tax Fund in the amount of \$26,484. (which is included in the General Fund in the accompanying financial statements)

The accompanying financial statements included the required adjustments to properly present the Village's financial activity for 2011 and the Village has also made the adjustments to its ledgers.

The failure to accurately classify revenues and expenditures in the proper line accounts limits the ability of Village Council to make informed decisions regarding operations and results in inaccurate information for users of the Village's financial reports.

The Fiscal Officer should review the Chart of Accounts and record transactions according to the account code descriptions. The proper classification of revenues and expenditures would allow the financial statements to better reflect the Village revenues and expenditures.

Official's Response:

The Fiscal Official will continue to try to accurately credit items to the proper accounts.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

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
AUGUST 14, 2012