



Mary Taylor, CPA  
Auditor of State



**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

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# Mary Taylor, CPA

Auditor of State

Southwest Mercer Fire District  
Mercer County  
111 South Main Street  
P.O. Box 528  
Fort Recovery, Ohio 45846

To the Board of Trustees:

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 a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government 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 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.

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**Mary Taylor, CPA**  
Auditor of State

July 3, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Southwest Mercer Fire District  
Mercer County  
111 South Main Street  
P.O. Box 528  
Fort Recovery, Ohio 45846

To the Board of Trustees:

We have audited the accompanying financial statements of Southwest Mercer Fire District, Mercer County, (the District), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the District'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 District 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.

Revisions to GAAP would require the District to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to reformat its statements. Since this District does not use GAAP to measure financial statement amounts, 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 years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of Southwest Mercer Fire District, Mercer County, as of December 31, 2006 and 2005, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2007, on our consideration of the District'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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

July 3, 2007



**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGE IN FUND CASH BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>General</b>
<b>Cash Receipts:</b>	
Local Taxes	\$78,281
Intergovernmental	133,085
Charges for Services	15,443
Earnings on Investments	289
Miscellaneous	1,409
Total Cash Receipts	228,507
<b>Cash Disbursements:</b>	
Current:	
Salaries	8,241
Repair/Maintenance	15,280
Contracted Services	3,594
Equipment	139,583
Miscellaneous	21,924
Debt Service:	
Redemption of Principal	34,866
Interest	4,106
Total Disbursements	227,594
Total Receipts Over/(Under) Disbursements	913
Fund Cash Balance, January 1	23,943
<b>Fund Cash Balance, December 31</b>	<b>\$24,856</b>

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

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGE IN FUND CASH BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>General</b>
<b>Cash Receipts:</b>	
Local Taxes	\$80,176
Intergovernmental	8,864
Charges for Services	8,717
Earnings on Investments	166
Miscellaneous	4,518
Total Cash Receipts	102,441
<b>Cash Disbursements:</b>	
<b>Current:</b>	
Salaries	7,468
Repair/Maintenance	26,162
Contracted Services	3,341
Equipment	26,529
Miscellaneous	23,849
<b>Debt Service:</b>	
Redemption of Principal	24,160
Interest	4,812
Total Disbursements	116,321
Total Receipts Over/(Under) Disbursements	(13,880)
Fund Cash Balance, January 1	37,823
<b>Fund Cash Balance, December 31</b>	<b>\$23,943</b>

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

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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 Southwest Mercer Fire District, Mercer County, (the District) as a body corporate and politic. A five-member Board of Trustees governs the District. Each political subdivision within the District appoints one member. Those subdivisions are Washington Township, Gibson Township, Recovery Township, and the Village of Fort Recovery. The District provides fire protection and rescue services within the District and by contract to areas outside the District.

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

**B. Basis of Accounting**

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

These statements adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

The accounting basis includes investments as assets. Accordingly, investment purchases are not recorded as disbursements, and investment sales are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**D. Fund Accounting**

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

**1. General Fund**

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

**E. Budgetary Process**

The Ohio Revised Code requires the District to budget each fund 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 Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

The District did not encumber all commitments required by Ohio law.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investments pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 follows:

	<b>2006</b>	<b>2005</b>
Demand deposits	\$24,856	\$23,943
Total deposits	24,856	23,943

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

<b>2006 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$227,293	\$228,507	\$1,214
Total	\$227,293	\$228,507	\$1,214

<b>2006 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$255,811	\$227,594	\$28,217
Total	\$255,811	\$227,594	\$28,217

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

<b>2005 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted</b>	<b>Actual</b>	<b>Variance</b>
	<b>Receipts</b>	<b>Receipts</b>	
General	\$109,354	\$102,441	(\$6,913)
Total	\$109,354	\$102,441	(\$6,913)

<b>2005 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation</b>	<b>Budgetary</b>	<b>Variance</b>
	<b>Authority</b>	<b>Expenditures</b>	
General	\$131,376	\$116,321	\$15,055
Total	\$131,376	\$116,321	\$15,055

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of Trustees adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State then pays the District amounts equaling the homestead and rollback deductions. 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.

Tangible personal property tax owners assess that property. The property owners must file a tangible property list 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 District.

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Fire Truck Lease	70,974	2.00%
Total	\$70,974	

The District entered into a lease purchase agreement on November 4, 2004, for the acquisition of a fire truck. The total amount of the initial lease agreement was \$130,000. Amortization of the remaining lease debt including interest is scheduled as follows:

<b>Year ending December 31:</b>	<b>Principle</b>	<b>Interest</b>
2007	\$25,901	\$3,071
2008	26,972	2,000
2009	18,101	870
Total	\$70,974	\$5,941

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**6. RETIREMENT SYSTEMS**

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. Members of OPERS contributed 8.5 percent of their wages to OPERS in 2005 and 9.0% of their wages to OPERS in 2006. The District contributed an amount equal to 13.55 percent of participants' gross salaries in 2005 and 13.70 percent of participants' gross salaries in 2006.

**7. RISK MANAGEMENT**

**Commercial Insurance**

The Southwest Mercer Fire District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**8. CONTINGENT LIABILITIES**

During 2006 the District received and expended a grant from the Federal Emergency Management Agency for equipment in the amount of \$122,089. Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding disallowed costs. Management cannot presently determine amounts the grantor may disallow. However, based upon prior experience management believes any refunds would be immaterial.



# Mary Taylor, CPA

Auditor of State

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

Southwest Mercer Fire District  
Mercer County  
111 South Main Street  
P.O. Box 528  
Fort Recovery, Ohio 45846

To the Board of Trustees:

We have audited the financial statements of Southwest Mercer Fire District, Mercer County, (the District), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 3, 2007, wherein we noted the District 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding 2006-001.

**INTERNAL CONTROL OVER FINANCIAL REPORTING  
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated July 3, 2007.

**COMPLIANCE AND OTHER MATTERS**

As part of reasonably assuring whether the District'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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated July 3, 2007.

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

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

July 3, 2007



**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Noncompliance Citation – Significant Deficiency**

**Ohio Rev. Code Section 5705.41(D)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Fire District can authorize the drawing of a warrant for the payment of the amount due. The Fire District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Ambulance district.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Fire District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Fire District did not properly certify the availability of funds prior to purchase commitment for 24.24% of disbursements in 2005 and 2006, and the aforementioned exceptions were not properly utilized since the then and now certification was not properly documented. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

**FINDING NUMBER 2006-001  
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Fire District's funds exceeding budgetary spending limitations, we recommend that the Fire District's Fiscal Officer certify that the funds are or will be available prior to the obligation by the Fire District. When prior certification is not possible, "then and now" certification should be used.

We recommend the Fire District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Fire District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Client Response:**

The Southwest Mercer Fire District will attempt to properly document the "then and now" certification process when purchase orders are not used.

**SOUTHWEST MERCER FIRE DISTRICT  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Failure to certify the availability of funds prior to incurring obligations.	No	See Finding 2006-001





**Mary Taylor, CPA**  
Auditor of State

**SOUTHWEST MERCER FIRE DISTRICT**

**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 2, 2007**