



**VILLAGE OF SPENCER
MEDINA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005-2004



**Auditor of State
Betty Montgomery**

VILLAGE OF SPENCER
MEDINA COUNTY

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**Auditor of State
Betty Montgomery**

Village of Spencer
Medina County
109 North Main Street
Spencer, Ohio 44275

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 a February 2, 2005 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 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 "Betty Montgomery".

Betty Montgomery
Auditor of State

August 24, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Spencer
Medina County
109 North Main Street
Spencer, Ohio 44275

To the Village Council:

We have audited the accompanying financial statements of Village of Spencer, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004. 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village 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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds 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 Spencer, Medina County, Ohio as of December 31, 2005 and 2004, and its combined 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 Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village 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 August 24, 2006, 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.



Betty Montgomery
Auditor of State

August 24, 2006

VILLAGE OF SPENCER
MEDINA COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$31,235 | \$28,851 | | \$60,086 |
| Contributions and Donations | 292,709 | 4,210 | | 296,919 |
| Special Assessments | | 12,541 | | 12,541 |
| Intergovernmental Receipts | 44,935 | 37,051 | | 81,986 |
| Fines, Licenses, and Permits | 1,035 | 210 | | 1,245 |
| Earnings on Investments | 153 | | | 153 |
| Miscellaneous | 77 | | | 77 |
| | <hr/> | | | |
| Total Cash Receipts | 370,144 | 82,863 | | 453,007 |
| Cash Disbursements: | | | | |
| Security of Persons and Property | 186,024 | 33,111 | | 219,135 |
| Leisure Time Activities | 136,519 | | | 136,519 |
| Transportation | 66,716 | 28,851 | | 95,567 |
| General Government | 151,368 | 980 | | 152,348 |
| Debt Service: | | | | |
| Principal Retirement | 30,182 | | | 30,182 |
| Interest and Fiscal Charges | 5,431 | | | 5,431 |
| | <hr/> | | | |
| Total Cash Disbursements | 576,240 | 62,942 | | 639,182 |
| | <hr/> | | | |
| Total Receipts Over/(Under) Disbursements | (206,096) | 19,921 | | (186,175) |
| Other Financing Receipts and (Disbursements): | | | | |
| Other Financing Sources | 17,379 | | | 17,379 |
| Other Financing Uses | (18,613) | | | (18,613) |
| | <hr/> | | | |
| Total Other Financing Receipts/(Disbursements) | (1,234) | | | (1,234) |
| | <hr/> | | | |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (207,330) | 19,921 | | (187,409) |
| | <hr/> | | | |
| Fund Cash Balances, January 1 | 168,808 | 26,123 | \$1,339 | 196,270 |
| | <hr/> | | | |
| Fund Cash Balances, December 31 | (\$38,522) | \$46,044 | \$1,339 | \$8,861 |
| | <hr/> <hr/> | | | |

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | Proprietary Fund Type Enterprise |
|--|---|
| Operating Cash Receipts: | |
| Charges for Services | \$255,642 |
| Operating Cash Disbursements: | |
| Personal Services | 92,113 |
| Fringe Benefits | 8,012 |
| Contractual Services | 30,200 |
| Supplies and Materials | 90,606 |
| Capital Outlay | 698 |
| Other | 16,122 |
| | 237,751 |
| Total Operating Cash Disbursements | 237,751 |
| Operating Income | 17,891 |
| Non-Operating Cash Receipts: | |
| Earnings on Investments | 229 |
| Non-Operating Cash Disbursements: | |
| Debt Service: | |
| Principal Retirement | 68,179 |
| Interest and Fiscal Charges | 20,198 |
| Other Non-Operating Cash Disbursements | 497 |
| | 88,874 |
| Total Non-Operating Cash Disbursements | 88,874 |
| Net Receipts (Under) Disbursements | (70,754) |
| Fund Cash Balances, January 1 | 159,663 |
| Fund Cash Balances, December 31 | \$88,909 |

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

VILLAGE OF SPENCER
MEDINA COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|--|-------------------------|--------------------|-----------------|--------------------------------|
| | General | Special Revenue | Debt Service | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$37,632 | \$37,947 | | \$75,579 |
| Contributions and Donations | 277,410 | | | 277,410 |
| Special Assessments | | 13,376 | | 13,376 |
| Intergovernmental Receipts | 226,622 | 30,631 | | 257,253 |
| Fines, Licenses, and Permits | 1,927 | 1,413 | | 3,340 |
| Earnings on Investments | 53 | | | 53 |
| Total Cash Receipts | 543,644 | 83,367 | | 627,011 |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 124,740 | 55,391 | | 180,131 |
| Leisure Time Activities | 23,254 | | | 23,254 |
| Community Environment | 170 | | | 170 |
| Basic Utility Services | 835 | | | 835 |
| Transportation | 53,956 | 34,466 | | 88,422 |
| General Government | 94,051 | 1,973 | | 96,024 |
| Debt Service: | | | | |
| Principal Retirement | 50,000 | | | 50,000 |
| Interest and Fiscal Charges | 5,692 | | | 5,692 |
| Total Cash Disbursements | 352,698 | 91,830 | | 444,528 |
| Total Receipts Over/(Under) Disbursements | 190,946 | (8,463) | | 182,483 |
| Other Financing Receipts and (Disbursements): | | | | |
| Transfers-In | 20,727 | | | 20,727 |
| Other Financing Sources | 2,357 | | | 2,357 |
| Transfers-Out | | (20,727) | | (20,727) |
| Total Other Financing Receipts/(Disbursements) | 23,084 | (20,727) | | 2,357 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 214,030 | (29,190) | | 184,840 |
| Fund Cash Balances, January 1 | (45,222) | 55,313 | \$1,339 | 11,430 |
| Fund Cash Balances, December 31 | \$168,808 | \$26,123 | \$1,339 | \$196,270 |

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

VILLAGE OF SPENCER
MEDINA COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004

| | <u>Proprietary Fund Type Enterprise</u> |
|--|---|
| Operating Cash Receipts: | |
| Charges for Services | \$271,733 |
| Operating Cash Disbursements: | |
| Personal Services | 79,806 |
| Fringe Benefits | 12,964 |
| Contractual Services | 15,622 |
| Supplies and Materials | 78,898 |
| Other | <u>3,319</u> |
| Total Operating Cash Disbursements | <u>190,609</u> |
| Operating Income | <u>81,124</u> |
| Non-Operating Cash Receipts: | |
| Earnings on Investments | 371 |
| Non-Operating Cash Disbursements: | |
| Debt Service | |
| Principal Retirement | 52,362 |
| Interest and Fiscal Charges | <u>19,283</u> |
| Total Non-Operating Cash Disbursements | <u>71,645</u> |
| Net Receipts Over Disbursements | 9,850 |
| Fund Cash Balances, January 1 | <u>149,813</u> |
| Fund Cash Balances, December 31 | <u><u>\$159,663</u></u> |

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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 Spencer, Medina County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. 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 Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports 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 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.

Police Levy Fund - This fund receives property tax revenue for the purpose of funding the Village police department.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant debt service funds:

General Obligation Debt Service – This fund previously received special assessment revenue for the payment of principal and interest of the Village's general obligation debt.

This fund was inactive during 2005 and 2004.

4. 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.

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 legal level of control and appropriations may not exceed estimated resources. During 2005, the legal level of control was fund level. During 2004, the legal level of control was at object or function level depending on the fund.

Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure.

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.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. 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.

G. 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. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | <u>2005</u> | <u>2004</u> |
|-------------------------|------------------------|-------------------------|
| Demand deposits | \$81,270 | \$339,433 |
| Certificates of deposit | <u>16,500</u> | <u>16,500</u> |
| Total deposits | <u><u>\$97,770</u></u> | <u><u>\$355,933</u></u> |

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2005 and 2004 follows:

| 2005 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$624,460 | \$387,523 | (\$236,937) |
| Special Revenue | 76,374 | 82,863 | 6,489 |
| Enterprise | 257,658 | 255,871 | (1,787) |
| Total | \$958,492 | \$726,257 | (\$232,235) |

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$333,802 | \$594,853 | (\$261,051) |
| Special Revenue | 60,712 | 62,942 | (2,230) |
| Enterprise | 257,143 | 326,625 | (69,482) |
| Total | \$651,657 | \$984,420 | (\$332,763) |

| 2004 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$623,160 | \$566,728 | (\$56,432) |
| Special Revenue | 76,674 | 83,367 | 6,693 |
| Enterprise | 257,658 | 272,104 | 14,446 |
| Total | \$957,492 | \$922,199 | (\$35,293) |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$566,132 | \$352,698 | \$213,434 |
| Special Revenue | 127,141 | 112,557 | 14,584 |
| Enterprise | 372,490 | 262,254 | 110,236 |
| Total | \$1,065,763 | \$727,509 | \$338,254 |

Noncompliance

- Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2005 and 2004;
- Contrary to Ohio Rev. Code Section 5705.28, the Village did not adopt a tax budget for 2005 and 2004 by the required date;
- Contrary to Ohio Rev. Code Section 5705.38, the Village did not adopt permanent appropriations for 2005;

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

- Contrary to Ohio Rev. Code Section 5705.10, the Village had negative cash fund balances in certain funds at December 31, 2005;
- Contrary to Ohio Rev. Code Section 5705.41(B), the Village expended more than was appropriated in certain funds/accounts at the applicable legal level of control.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|---|------------------|----------------------|
| Ohio Water Development Authority Loan | \$194,652 | 6.36% |
| Ohio Public Works Commission Loan CI805 | 201,939 | 0.00% |
| Ohio Public Works Commission Loan CI623 | 38,999 | 0.00% |
| Mortgage Revenue Bonds | 47,000 | 5.00% |
| Bank Loan - Maintenance Building | 69,801 | 8.50%* |
| Total | <u>\$552,391</u> | |

* Variable rate loan.

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project the Ohio Environmental Protection Agency mandated. The Village borrowed \$298,500 from the OWDA for this project. The loans are being repaid in semiannual installments of \$13,450, with interest, over 15 years of which 10 years remain. The loan is collateralized by sewer receipts. The Village set utility rates at an amount which is sufficient to cover OWDA debt service requirements.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. DEBT (Continued)

The Ohio Public Works Commission (OPWC) loan CI805 relates to wastewater treatment plant improvements mandated by the Ohio Environmental Protection Agency. The Village borrowed \$403,878 from OPWC for this project. The loans are being repaid in semiannual installments of \$10,097, with no interest, over 20 years of which 10 years remain. The loan is collateralized by water and sewer receipts. The Village set utility rates at an amount which is sufficient to cover OPWC debt service requirements.

The Ohio Public Works Commission (OPWC) loan CI623 relates to wastewater treatment plant improvements mandated by the Ohio Environmental Protection Agency. The OPWC has approved up to \$100,000 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$2,167, with no interest, over 20 years of which 9 years remain. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Mortgage Revenue Bonds relate to the construction of a municipal sewer system for the Village. The Village borrowed a total of \$293,000 to be repaid in annual varying installments over 37 years of which 3 years remain. The Mortgage Revenue Bonds are collateralized by the Village's water and sewer receipts.

The bank loan from Farmers Savings Bank relates to the construction of a Village maintenance building. The Village borrowed a total of \$150,000 to be repaid in annual installments of \$30,000 over 5 years, of which 3 years remain, at a variable interest rate of 2% above the base lending rate of National City Bank, Cleveland, Ohio.

Amortization of the above debt, including interest, follows:

| Year ending December 31: | OWDA Loan | OPWC Loan CI805 | OPWC Loan CI623 | Mortgage Revenue Bonds | Maintenance Building Loan |
|--------------------------|------------------|--------------------|--------------------|------------------------------|------------------------------|
| 2006 | \$13,450 | \$20,194 | \$4,333 | \$17,350 | \$36,000 |
| 2007 | 26,900 | 20,194 | 4,333 | 16,600 | 35,759 |
| 2008 | 26,900 | 20,194 | 4,333 | 15,850 | 13,162 |
| 2009 | 26,900 | 20,194 | 4,333 | 2,100 | |
| 2010 | 26,900 | 20,194 | 4,333 | | |
| 2011-2015 | 134,500 | 100,969 | 17,334 | | |
| 2016 | 13,446 | | | | |
| Total | <u>\$268,996</u> | <u>\$201,939</u> | <u>\$38,999</u> | <u>\$51,900</u> | <u>\$84,921</u> |

6. CONTRIBUTIONS AND DONATIONS – (J.B. FIRESTONE CIVIC TRUST)

Pursuant to the last will and testament of John B. Firestone dated October 2, 1961, the Village of Spencer, Ohio, was named as a beneficiary of a Civil Trust fund. Subject to approval by an advisory committee and the trustee, the Village is permitted to use payments of principal and income from this trust for any departments, facilities and projects of the Village that will best contribute to the mental, moral, and physical improvement of the Village and its residents.

During 2005 and 2004, \$292,709 and \$277,410 was received from the J.B. Firestone Civic Trust and is reflected on the financial statements as Contributions and Donations revenue in the General Fund.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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Auditor of State Betty Montgomery

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

Village of Spencer
Medina County
109 North Main Street
Spencer, Ohio 44275

To the Village Council:

We have audited the financial statements of the Village of Spencer, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 24, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-001 through 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Village's management dated August 24, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-005 through 2005-010. In a separate letter to the Village's management dated August 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 24, 2006

**VILLAGE OF SPENCER
MEDINA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

FINDING NUMBER 2005-001

Reportable Condition

Cash Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of the cash in the accounting records. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time.

We noted the following with respect to the Village's bank reconciliations:

- At December 31, 2005, the Village's initial cash reconciliation reported the balance of its Water and Sewer checking account as \$5,452, when in fact, \$2,296 was reported on the bank statement. Further, the initial cash reconciliation reported the balance of the Money Market Checking account as \$4,271, when in fact, \$4,327 was reported on the bank statement.

The initial reported balances were as of December 31, 2004 not 2005, indicating that during fiscal year 2005, none of the changes in the bank accounts were accounted for or reconciled during the year.

The Village should ensure all bank balances on the Village's reconciliation agree to the bank statements provided by the bank and all the activity of each of the Village's bank accounts is properly accounted for in the Village's cash receipt and disbursement ledgers each month.

- At December 31, 2005, the Village's initial cash reconciliation reported "Other Adjusting Factor" in the amount of \$67,450 for which there was no supporting documentation. Further investigation determined \$65,000 of this amount related to the improper recording of a contribution from the Firestone Civic Trust which was not actually received. This error contributed to the negative fund balance of \$38,522 in the General Fund at December 31, 2005 (see Finding Number 2005-009).

The remaining \$2,450 of the "Other Adjusting Factors" included a deposit made to the bank that was not recorded on the Village's financial records, a check under posted by the bank, revenues over posted on the Village's financial records, and a check incorrectly included on the outstanding check list.

The Village should ensure all adjusting factors are supported by appropriate documentation and all errors noted in the reconciliation process are corrected as soon as possible. This includes, but is not limited to, ensuring all deposits per the bank statement(s) agree to amounts received in the financial records, ensuring all checks clearing the bank agree to the amounts for which the checks were written, and ensuring all checks clearing the monthly bank statement(s) are cleared on the financial records.

- At December 31, 2004, a check in the amount of \$50 which was incorrectly included on the outstanding check list, and a check in the same amount was incorrectly excluded from the outstanding checklist. This is an indication the wrong check was marked in the system as clearing the bank.

FINDING NUMBER 2005-001 (Continued)

Reportable Condition (Continued)

- The Village should match the checks clearing the bank from the bank statement to the system to ensure the correct checks are marked as being cleared in the UAN system.

Without complete and accurate monthly bank reconciliations, the Village's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by management. The Village should perform complete monthly bank reconciliations in a timely manner. Also, a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Village Council each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-002

Reportable Condition

Payroll Expenditures and Related Matters:

We noted several weaknesses in the processing of payroll related expenditures. These weaknesses included, but were not limited to, incorrect calculations of public employee pension systems, social security, Medicare and income taxes withholdings. As well as incorrect amounts reported on employees W2s. Such errors could subject the Village and its employees to fines and penalties from the federal government, pension systems and/or other applicable agencies.

The following specific concerns were noted:

- 3 of 20 tested employee's total gross wages for 2004 did not agree to the employees' W-2 Forms. The Clerk/Treasurer, Sewer Supervisor and Police Chief's W-2s were understated by \$1,688, \$2,051 and \$1,631, respectively.

In addition, 1 of the 19 tested employee's gross wages for 2005 did not agree to the employee's W-2 Form. This W-2 form was overstated compared to the actual amounts received for the Law Director by \$2,781.

The Village should ensure gross wages on W-2's for all employees agree to the actual amounts paid according to the Village's payroll register reports.

- During 2004, the Mayor, all Board of Public Affair members, and three of the seven Village Council members received 1099's as an independent contractors instead of W-2's since they are Village employees. Therefore, all of these employees did not have Federal and State income taxes, Medicare tax or applicable retirement system (Social Security or OPERS) amounts withheld and submitted to the appropriate agency. During 2005, the Village corrected this issue and issued W-2's for these employees, however federal income tax was not withheld and Medicare and retirement system amounts were calculated and withheld incorrectly.

FINDING NUMBER 2005-002 (Continued)

Reportable Condition (Continued)

Additionally, Medicare and retirement withholdings for a majority of employees tested in 2005 and 2004 were not calculated correctly. There was also one out of 50 hourly employees (Police Officer) tested who did not have federal income tax withheld from one of his checks tested in 2004 even though a subsequent check tested in 2005 did have federal income tax withheld. There were also two employee checks tested where miscellaneous pays for clothing allowances and insurance (\$450 and \$200 respectively) were not included as taxable fringe benefit on their respective W-2's.

The Village has since contracted with an outside consultant to help correct issues noted above.

The Village should ensure all appropriate withholdings are calculated correctly and remitted to the appropriate agencies. The Village should also ensure that all employees of the Village receive the appropriate W-2 Form and only issue 1099 Forms for independent contractors. They should also ensure all taxable fringe benefits are included in each respective employee's W-2.

These matters have been referred to the Internal Revenue Service, Social Security, Public Employees Retirement System and the Ohio Police & Fire Pension Fund.

Other payroll expenditure related issues noted in our audit included:

- 5 of 18 employee's times sheets tested, 4 in 2005 and 1 in 2004, were not signed and approved by the employee's supervisor.

The Village should ensure all supervisors review and approve time sheets before submitting them to the Clerk. Once payroll is completed the payroll register prepared by the Clerk should be forwarded to each department head for their review and if any discrepancies are noted between the actual hours paid per the payroll register report and hours noted on the approved time sheet, they should be discussed and corrected, if necessary.

- 5 payroll expenditures were not charged to the appropriate account code. One was a Council Member check that was charged to General Government - Legal Council Salary instead of the General Government – Council Salary within the General Fund. One payment for a police officer's insurance was charged to Security of Persons and Property – Other Personal Salaries instead of Security of Persons and Property – Insurance Benefits. The other 3 were related to police officer expenditures that were improperly recorded to Transfers Out instead of Security of Persons and Property – Other Personal Services.

The Village should obtain the most up to date UAN Manual and use it as a reference tool to ensure that all payroll related expenditures are charged to the correct account code.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-003

Reportable Condition

Nonpayroll Expenditures

We noted several weaknesses in the processing of nonpayroll related expenditures. These weaknesses included, but were not limited to, inconsistent check numbering, inconsistent check dating, unsupported payments, and inconsistent account posting. These weaknesses could lead to inefficient operation of the Village's finance functions, and financial statement errors. In addition, these weaknesses may compromise management's ability to effectively monitor the finances and make appropriate decisions for the Village.

Of the 131 expenditures tested, the following was noted:

- 25 of the expenditures tested, had preprinted check numbers which did not agree to the UAN system warrant numbers, and 10 expenditures had check dates which did not agree to the dates in the UAN payment register;

The Village should ensure the preprinted check numbers and dates agree to the dates and warrant numbers assigned/printed by the UAN system. This will make it easier for management to locate and review supporting documentation for disbursements to help ensure they are proper for the Village.

- 8 of the expenditures tested, had no invoices attached to support the payments, and 5 expenditures included payments that exceed the amounts due per the attached invoices;

The Village should require sufficient approved supporting documentation for all expenditures and should ensure the amount paid agrees to the attached invoices. Further, the officials receiving the goods/services should initial the invoice(s) to indicate all of the merchandise/goods billed were received. If an invoice is received which does not include such approval, some type of assurance of receipt should be received by the Clerk/Treasurer prior to processing of the payment. This practice would help ensure the vendors are paid only for the good or services the Village actually received.

- 1 of the expenditures tested, had a check that was not signed by the authorized signatories (the Mayor and Clerk/Treasurer) however, this check was still cashed by the bank;

The Village should ensure all checks are signed by the authorized signatories and should notify its bank not to cash any checks which are not properly signed.

- Late fees of \$50 and \$618 in 2005 and 2004, respectively, were paid on debt payments which were made after the due date. In addition, other late fees were assessed but were waived by the debtor;

The Village should ensure all debt payments are made prior to the due date to avoid late fees which are an inefficient use of the Village monies.

- Debt payments on the Village's bank loan were not made in accordance with the amortization schedule. In 2004, an additional \$20,000 of principal was paid on the bank loan but it was not posted as such in the accounting system;

FINDING NUMBER 2005-003 (Continued)

Reportable Condition (Continued)

The Village should ensure it pays its loan balances in accordance with the bank amortization schedule. If the Village chooses to pay additional principal, the Village should ensure the payment is properly reflected as a principal payment in the accounting system. This will allow management to better track the balance of the outstanding debt.

- Debt principal payments of \$98,361 and \$102,362 in 2005 and 2004, respectively and debt interest payments of \$25,629 and \$24,975 in 2005 and 2004, respectively, were not posted to the proper principal and interest accounts in the UAN system;

The Village should post principal and interest to the proper accounts in order for management to ensure the Village's debt balances are being paid timely, being paid in the proper amount, and to track the balances of outstanding Village debt.

- The Village maintains credit cards with the Marathon Gas Station in the Village limits for the purchase of gasoline and various other items. The Village only maintained the credit card statements and not the original receipts. The credit card statements indicated gasoline purchase amounts, however miscellaneous items were coded as "convenient store" items. During 2005 and 2004 these amounted to \$78.25 and \$52.25, respectively, which we are unable to determine if these purchases were for a proper public purpose.

The Village should establish a credit card policy indicating authorized users, allowable expenditures and requiring original receipts being maintained and submitted for reimbursement. The Village should match the original receipt to the monthly credit card statement and keep all supporting documentation when payment is remitted.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-004

Reportable Condition

Cash Receipts

The Village had numerous errors to the posting and reporting of revenue transactions. These errors resulted in reclassification and fund balance adjustments.

Errors noted included, but were not limited to, the following:

- Internet access donations from the Ohio Police Officers association in the amount of \$4,210 was incorrectly posted as Intergovernmental Receipts instead of Contributions and Donations;
- Homestead and Rollback distributions from the State of \$7,472 and \$7,348 in 2005 and 2004, respectively, were posted as Taxes rather than Intergovernmental Revenue;
- Motor Vehicle License Tax and Permissive Tax revenues of \$8,732 and \$7,730 in 2005 and 2004, respectively, were posted as Taxes rather than Intergovernmental Revenue;
- Motor Vehicle License Tax was not properly distributed between the Street Construction Maintenance and Repair Fund and State Highway Improvement Fund;

FINDING NUMBER 2005-004 (Continued)

Reportable Condition (Continued)

- Natureworks Grants receipts of \$21,750 in 2005 were recorded as Other Financing Sources in the General Fund rather than Intergovernmental Revenue in a separate Special Revenue Fund;
- Medina County Drug Abuse Commission (MCDAC) grant receipts of \$1,500 in 2005 were recorded as Other Taxes in the Police Levy Fund rather than as Intergovernmental Revenue in a separate Special Revenue Fund;
- Real Estate Taxes were posted net of County Auditor and Treasurer fees of \$11,955 and \$3,495 in 2005 and 2004, respectively;
- Numerous other mispostings were also noted such as Local Government Assistance, Cigarette Tax and Liquor revenues being posted to Taxes instead of Intergovernmental Revenue;

The Village should take the necessary steps to ensure receipts are accounted for and properly classified when posted to the Village's accounting system. To achieve this, the Clerk-Treasurer should review the Village manual and maintain a fund/account sheet which documents the specific line items where each type of revenue should be posted.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-005

Material Noncompliance

Finding for Recovery

The Village Clerk-Treasurer's contract for fiscal year 2004 stated she would be paid a total salary of \$19,663.73 which would be payable monthly. The Clerk-Treasurer was incorrectly paid 13 times during fiscal year 2004. She received her first installment of her 2005 contract on December 29, 2004. During fiscal year 2005, she received an additional 12 monthly payments, thus resulting in a total overpayment to the Clerk-Treasurer in the amount of \$1,687.87 (gross pay) for fiscal years 2005 and 2004 as follows:

| | |
|-------------------------------------|-------------------|
| 2004 Monthly Gross Pay | \$1,638.65 |
| Times: No. of Payments | 12 |
| Sub-Total | <u>19,663.80</u> |
| Plus: Dec. 29,2004 (additional pay) | <u>1,687.80</u> |
| Total 2004 Gross Pay | 21,351.60 |
| Less: 2004 Approved Salary | <u>19,663.73</u> |
| Net Overpayment | <u>\$1,687.87</u> |

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended in the amount of \$1,687.87 is hereby issued jointly and severally against Rhonda Riffle, Clerk-Treasurer, and the Ohio Government Risk Management Plan and in favor of the Village of Spencer's General Fund (\$590.75), Water Fund (\$540.12) and Sewer Fund (\$557.00).

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-006

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), 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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village 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 Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal 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 Village 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 line item appropriation.

During 2005 and 2004, none of the 131 expenditures tested were certified by the Clerk-Treasurer prior to incurring the obligation. It was also found that none of the three exceptions above were utilized for the items found to be in noncompliance. The Village should certify the availability of funds for expenditures and also implement the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-007

Material Noncompliance

Ohio Rev. Code Section 5705.28 requires the Village Council as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Village Council did not adopt an annual tax budget for 2005 or 2004 by the required deadline. To avoid jeopardizing its share of local government monies, the Village should adopt a tax budget on or before July 15 of each year.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-008

Ohio Rev. Code Section 5705.38 requires on or about the first day of each fiscal year, an appropriation measure be passed. The village may pass a temporary appropriation measure to meet their ordinary expenses until April 1, at which time a permanent appropriation measure must be passed.

The Village passed temporary appropriations for fiscal year 2005, but did not approve and file permanent appropriations with the County Auditor. The Village should adopt a permanent appropriation measure by April 1 each year if a temporary appropriation measure is passed.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-009

Ohio Rev. Code Section 5705.10 requires that money paid into a fund be used only for the purposes for which the fund was established. Negative fund balances indicate that monies from one fund were used to cover the expenses of another fund.

At December 31, 2005, the Village had negative fund balances (overdrafts) in the following funds after audit adjustments:

| Fund | Overdrafts |
|----------------|-------------------|
| General | \$38,522 |
| Permissive Tax | 1,308 |

Since bank reconciliations were not properly being performed on a monthly basis, certain financial statement errors were not discovered and corrected in a timely manner thus contributing to these negative fund balances and management's inability to detect and correct them in a timely manner.

The Village should closely monitor fund balances, revenues, and expenditures to ensure that deficit fund balances do not arise from spending more that what is available. In addition, the Village should ensure proper bank reconciliations are performed monthly so that accounting errors which could cause negative fund balances are detected and corrected in a timely manner.

Officials' Response: The Village agrees with the Auditor's Findings.

FINDING NUMBER 2005-010

Ohio Rev. Code Section 5705.41(B) requires no subdivision or taxing unit is to expend money unless it has been appropriated.

During our testing, we noted expenditures exceeded appropriations within the following funds/accounts at the applicable legal level of control:

As of December 31, 2005 (fund legal level of control):

| Fund | Appropriations | Expenditures | Variance |
|---------------------------------|-----------------------|---------------------|-----------------|
| 1000 General | \$37,500 | \$241,268 | \$203,768 |
| 2021 State Highway | - | 2,870 | 2,870 |
| 2101 Permissive Tax | - | 4,011 | 4,011 |
| 2271 Enforcement and Education | - | 202 | 202 |
| 5101 Water | 123,956 | 160,714 | 36,758 |
| 5201 Sewer | 133,187 | 158,815 | 25,628 |
| 5741 Debt Service Water Reserve | - | 2,167 | 2,167 |
| 5742 Debt Service Sewer Reserve | - | 497 | 497 |
| 5781 Utility Deposit | - | 1,388 | 1,388 |
| 2902 Firestone Trust | 296,302 | 342,610 | 46,308 |

As of December 31, 2004 (object legal level of control):

| Fund Account | Appropriations | Expenditures | Variance |
|---|-----------------------|---------------------|-----------------|
| <u>1000 General</u> | | | |
| Contractual Services – Leisure Time Program | \$3,000 | \$6,596 | 3,596 |
| <u>2011 Street Maintenance and Repair-</u> | | | |
| Other Supplies and Materials | 1,500 | 5,210 | 3,710 |
| <u>20901 Police</u> | | | |
| Other Personal Services Police Enforcement Program | 37,000 | 40,236 | 3,236 |
| <u>20901 Police</u> | | | |
| Other Supplies & Materials – Police Enforcement Program | 2,000 | 6,505 | 4,505 |
| <u>5101 Water</u> | | | |
| Operating Supplies and Materials Supply Water Program | 2,500 | 12,722 | 10,222 |
| <u>5201 Sewer</u> | | | |
| Other Personal Services – Pumping Program | 35,000 | 36,773 | 1,773 |
| <u>5201 Sewer</u> | | | |
| Other Contractual Services | 11,000 | 20,181 | 9,181 |
| <u>7001 Firestone Trust</u> | | | |
| Salaries & Wages – all programs | 120,000 | 138,587 | 18,587 |

In addition, appropriations posted to the Village's Appropriation Reports did not always agree to the Village's actual Annual Appropriation Measure plus supplemental appropriations. The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the legal level of control to avoid overspending. In addition, the Clerk/Treasurer should periodically review the Village's Appropriations Reports to ensure appropriation amounts are posted accurately and timely.

Officials' Response: The Village agrees with the Auditor's Findings.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2003-001 | Ohio Rev. Code Section 5704.41(D) – Certain expenditures were not certified by the Clerk/Treasurer prior to incurring the obligation | No | Repeated as Finding Number 2005-006 |
| 2003-002 | Ohio Rev. Code Section 5705.28 – The Village did not adopt a tax budget for 2003 or 2002. | No | Repeated as Finding Number 2005-007 |
| 2003-003 | Ohio Rev. Code Section 5705.41(B) – Total expenditures were in excess of appropriations in certain funds at year-end | No | Repeated as Finding Number 2005-010 |
| 2003-004 | Ohio Rev. Code Section 5705.34 – The Village did not pass resolutions authorizing the necessary tax levies and certify the levies to the County Auditor for 2003 or 2002. | No | Partially corrected; the required ordinances were passed but they were passed after the required dates. Repeated in management letter. |
| 2003-005 | Ohio Rev. Code Section 5705.10 – The Village had a negative fund balance in its General Fund at December 31, 2004. | No | Repeated as Finding Number 2005-009 |
| 2003-006 | Cash Procedures – Certain errors and unsupported reconciling items were noted with the Village's cash reconciliations. | No | Repeated as Finding Number 2005-001 |



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VILLAGE OF SPENCER

MEDINA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**