



**VILLAGE OF SPENCER
MEDINA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006-2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF SPENCER
MEDINA COUNTY

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Mary Taylor, CPA
Auditor of State

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 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 5, 2008

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Mary Taylor, CPA

Auditor of State

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 the Village of Spencer, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2007 and 2006. 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.

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.

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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, 2007 and 2006 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, 2007 and 2006, or its changes in financial position or cash flows, where applicable.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Spencer, Medina County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 5, 2008, 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.



Mary Taylor, CPA
Auditor of State

August 5, 2008

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, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$37,820	\$38,196		\$76,016
Contributions and Donations	300,000			300,000
Intergovernmental	27,203	44,716		71,919
Special Assessments		12,429		12,429
Fines, Licenses and Permits	11,416	50		11,466
Earnings on Investments	2,060	1,661		3,721
Rentals and Leases	10,800			10,800
Miscellaneous	1,432	205		1,637
	<hr/>	<hr/>		<hr/>
Total Cash Receipts	390,731	97,257		487,988
Cash Disbursements:				
Current:				
Security of Persons and Property	7,306	179,839		187,145
Leisure Time Activities	26,958			26,958
Community Environment		6,000		6,000
Basic Utility Service	15,740			15,740
Transportation	11	69,439		69,450
General Government	83,734	543		84,277
Debt Service:				
Redemption of Principal	30,473			30,473
Interest and Fiscal Charges	4,363			4,363
	<hr/>	<hr/>		<hr/>
Total Cash Disbursements	168,585	255,821		424,406
	<hr/>	<hr/>		<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	222,146	(158,564)		63,582
Other Financing Receipts / (Disbursements):				
Transfers-In	13,181			13,181
Transfers-Out		(13,181)		(13,181)
Other Financing Sources	2,414			2,414
Other Financing Uses	(385)			(385)
	<hr/>	<hr/>		<hr/>
Total Other Financing Receipts / (Disbursements)	15,210	(13,181)		2,029
	<hr/>	<hr/>		<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	237,356	(171,745)		65,611
	<hr/>	<hr/>		<hr/>
Fund Cash Balances (Deficit), January 1	103,592	(32,731)	\$1,339	72,200
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$340,948</u>	<u>(\$204,476)</u>	<u>\$1,339</u>	<u>\$137,811</u>

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, 2007**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$278,797
Operating Cash Disbursements:	
Personal Services	76,698
Employee Fringe Benefits	13,091
Contractual Services	77,420
Supplies and Materials	10,263
Other	404
	177,876
Total Operating Cash Disbursements	177,876
Operating Income	100,921
Non-Operating Cash Receipts:	
Miscellaneous Receipts	4,767
Non-Operating Cash Disbursements:	
Redemption of Principal	36,991
Interest and Other Fiscal Charges	35,719
	72,710
Total Non-Operating Cash Disbursements	72,710
Excess of Cash Receipts Over Cash Disbursements	32,978
Fund Cash Balances, January 1	36,220
Fund Cash Balances, December 31	69,198
Reserve for Encumbrances, December 31	\$0

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, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$36,847	\$38,738		\$75,585
Contributions and Donations	493,360			493,360
Intergovernmental	29,326	38,780		68,106
Special Assessments		12,835		12,835
Fines, Licenses and Permits	2,845	25		2,870
Earnings on Investments	958	24		982
Rentals and Leases	10,800			10,800
Miscellaneous	101			101
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	574,237	90,402		664,639
Cash Disbursements:				
Current:				
Security of Persons and Property	160,493	88,252		248,745
Public Health Services	4,500	1,500		6,000
Leisure Time Activities	40,170			40,170
Transportation	155,874	40,217		196,091
General Government	87,515	643		88,158
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	448,552	130,612		579,164
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	125,685	(40,210)		85,475
Other Financing Receipts / (Disbursements):				
Transfers-In	38,565			38,565
Transfers-Out		(38,565)		(38,565)
Other Financing Sources	8,736			8,736
Other Financing Uses	(30,872)			(30,872)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	16,429	(38,565)		(22,136)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	142,114	(78,775)		63,339
Fund Cash Balances (Deficit), January 1	<hr/>	<hr/>	<hr/>	<hr/>
	(38,522)	46,044	\$1,339	8,861
Fund Cash Balances (Deficit), December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$103,592	(\$32,731)	\$1,339	\$72,200
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$204	\$303	\$0	\$507

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, 2006**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$241,999
Operating Cash Disbursements:	
Personal Services	85,831
Employee Fringe Benefits	16,194
Contractual Services	36,538
Supplies and Materials	78,361
Claims	6,206
	223,130
Total Operating Cash Disbursements	223,130
Operating Income	18,869
Non-Operating Cash Receipts:	
Earnings on Investments	235
Sale of Notes	13,866
Miscellaneous Receipts	501
	14,602
Total Non-Operating Cash Receipts	14,602
Non-Operating Cash Disbursements:	
Capital Outlay	16,550
Redemption of Principal	54,628
Interest and Other Fiscal Charges	14,982
	86,160
Total Non-Operating Cash Disbursements	86,160
Net Receipts Under Disbursements	(52,689)
Fund Cash Balances, January 1	88,909
Fund Cash Balances, December 31	\$36,220
Reserve for Encumbrances, December 31	\$760

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, 2007 AND 2006**

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. 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. Cash 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:

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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 Fund:

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.

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 2007, the legal level of control was object level. During 2006, the legal level of control was at fund level.

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.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (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 Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 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:

	2007	2006
Demand deposits	\$190,509	\$91,920
Certificates of deposit	16,500	16,500
Total deposits	\$207,009	\$108,420

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, 2007 AND 2006
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$442,658	\$406,326	(\$36,332)
Special Revenue	312,046	97,257	(214,789)
Enterprise	247,000	283,564	36,564
Total	<u>\$1,001,704</u>	<u>\$787,147</u>	<u>(\$214,557)</u>

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$476,551	\$168,970	\$307,581
Special Revenue	320,984	269,002	51,982
Enterprise	271,344	250,586	20,758
Total	<u>\$1,068,879</u>	<u>\$688,558</u>	<u>\$380,321</u>

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$447,593	\$621,538	\$173,945
Special Revenue	96,652	90,402	(6,250)
Enterprise	260,500	256,601	(3,899)
Total	<u>\$804,745</u>	<u>\$968,541</u>	<u>\$163,796</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$665,981	\$479,628	\$186,353
Special Revenue	183,060	169,480	13,580
Enterprise	375,410	310,050	65,360
Total	<u>\$1,224,451</u>	<u>\$959,158</u>	<u>\$265,293</u>

Noncompliance

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2007 and 2006.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity (Continued)

Noncompliance (continued)

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 and Auditor of State Bulletin 97-003 certain inter-fund transfers and advances were made in 2006 with no specific Council resolutions.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village 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.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$164,689	6.36%
Ohio Public Works Commission Loan CI805	161,551	0.00%
Ohio Public Works Commission Loan CI623	30,332	0.00%
Mortgage Revenue Bonds	17,000	5.00%
Bank Loan - Maintenance Building	39,801	8.50%*
Bank Loan - Truck	10,861	7.50%
Total	<u>\$424,234</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 8 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. The Village's taxing authority collateralized the bonds.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 8 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 7 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 2 year remain. The Mortgage Revenue Bonds are collateralized by the Village's water and sewer receipts.

The Maintenance Building Loan 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 1 year remains, at a variable interest rate of 2% above the base lending rate of National City Bank, Cleveland, Ohio.

The Truck Loan relates to the purchase of a pick-up truck to be used by the Village of Spencer Board of Public affairs and paid for from the Water Fund. The Village borrowed a \$13,866 to be repaid in monthly installments of \$278 over 6 years, of which 4 years remain. Interest expense is payable at 7.5% per year.

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	Truck Loan
2008	\$26,900	\$20,194	\$4,334	\$15,850	\$43,162	\$3,336
2009	26,900	20,194	4,334	2,100		3,336
2010	26,900	20,194	4,334			3,336
2011	26,900	20,194	4,334			2,491
2012	26,900	20,194	4,334			
2013-2016	94,150	60,581	8,662			
Total	<u>\$228,650</u>	<u>\$161,551</u>	<u>\$30,332</u>	<u>\$17,950</u>	<u>\$43,162</u>	<u>\$12,499</u>

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

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 2007 and 2006, \$300,000 and \$ 493,360 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.

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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10 percent of their wages. For 2007 and 2006, the Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages and 24 percent of full-time fire fighters' wages, respectively. For 2007 and 2006, OPERS members contributed 9 and 8.5 percent, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

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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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*

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, 2007 and 2006, and have issued our report thereon dated August 5, 2008 wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted 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. 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 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 expressing our opinion on the financial statements, but not to opine 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 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 Village'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 Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001, 2007-002 and 2007-004.

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

Our consideration of the 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. However, of the significant deficiencies described above, we believe findings number 2007-001 and 2007-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 5, 2008.

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 2007-003 and 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 5, 2008.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and the Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 5, 2008

**VILLAGE OF SPENCER
MEDINA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

Accounting Errors and Omissions:

Our tests identified the following accounting errors and omissions which were adjusted to the financial statements.

- Basic Utility Services and Leisure Time expenditures of \$17,151 were incorrectly recorded in the General Fund as Other Financing Uses in 2007.
- Earnings on Investments of \$1,627 were incorrectly credited to the General Fund rather than the Special Revenue - Street Maintenance, Construction, and Repair Fund.
- Homestead rollback receipts of \$2,863 and \$172, respectively, were incorrectly credited to the Special Revenue - Street Maintenance, Construction and Repair Fund instead of the Special Revenue - Police Levy Fund and General Fund in 2006.
- Transportation expenditures of \$120,275 were incorrectly recorded in the General Fund as other financing uses in 2006.
- Capital outlay expense of \$13,866 (truck purchase) and related financing were not recorded in 2006. The purchase should have been recorded as Capital Outlay and Other Financing Sources - Proceeds of Loans in the Enterprise - Water Fund.
- Principle and Interest disbursements of \$12,264 were incorrectly recorded in the Enterprise - Sewer Fund as supplies and materials disbursements in 2006.
- The Medina County Drug Abuse Commission grant (MCDAC) receipts and disbursements of \$11,000 and \$5,000, respectively, were incorrectly recorded as an agency fund type in 2007. The grant, including receipts of \$4,500, was recorded in the General Fund as other sources in 2006. The grant is a restricted purpose resource to be used by the Village police department. It should be classified as a Special Revenue Fund intergovernmental revenue.
- County motor vehicle license taxes (MVL) of \$6,349 were incorrectly recorded in the Special Revenue - Street Maintenance, Construction and Repair Fund as local taxes instead of intergovernmental receipts in 2007. MVL taxes of \$2,434 were incorrectly credited to the General Fund in 2006. The receipts should have been credited to the Special Revenue - Street Construction, Maintenance, and Repair Fund.

FINDING NUMBER 2007-001(Continued)

The Village should take the necessary steps to ensure receipts are accounted for and properly classified when posted to the Village's accounting system. The Fiscal Officer should refer to the Chapter 5 of the "Village Officers Handbook, Uniform System of Accounting", review current accounting codes, and ensure the current accounting codes conform to the Uniform System of Accounting. The Fiscal Officer should also refer to the Handbook and the Ohio Compliance Supplement to ensure new financing sources are recorded properly. In addition, the Village Council should review cash reconciliations, and monthly receipt and expenditure activity reports to help ensure transactions are properly accounted for and classified.

Officials' Response: Will process correctly, all items not already corrected in 2007 for 2006 and will deposit monies in the correct line items for the remainder of 2008 and beyond.

FINDING NUMBER 2007-002

Significant Deficiency

Cash Reconciliations

A necessary step in the internal control over financial reporting is to reconcile the bank balances and cash balances in the accounting records. Bank reconciliations involve accounting for the differences between the balances on the bank statement(s) and the cash and investment balances according to the Village's records at a specific point in time.

The Village's cash reconciliations from January 2006 through November 2006 included unsupported reconciling items ranging from \$2,984 to \$65,034. The source of these items were subsequently identified and corrected and the Village was able to reconcile cash for the remainder of the audit period.

Without complete and accurate monthly bank reconciliations, the Village's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The Village should perform timely and complete monthly bank reconciliations. Also, the Fiscal Officer should provide a copy of the bank reconciliation and listing of outstanding checks and other reconciling items to the Council monthly for review and approval. 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: Currently have been doing monthly bank reconciliations since November 2006 and will continue to do so.

Noncompliance Citation

FINDING NUMBER 2007-003

Ohio Rev. Code Section 5705.41(D) requires 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 which indicates 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.

FINDING NUMBER 2007-003 (continued)

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 of 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 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.

45.3 percent of the expenditures tested were not certified by the fiscal officer prior to the purchase commitment being made. It was also found none of the exceptions above were utilized for the items found to be in noncompliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

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 purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the fiscal officer should certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

The Village should 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 Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Village should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: Will continue to try and get council and employees to comply with getting a purchase order before any purchases are made.

Noncompliance Citation/Material Weakness

FINDING NUMBER 2007-004

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provides guidelines pertaining to allowable inter-fund transfers. Ohio Rev. Code Section 5705.14 provides that inter-fund transfers shall only be made by resolution of the taxing authority. See also 1989 Op. Att’y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority. Generally, before an inter-fund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. In some cases, approval of the County Tax Commissioner and a court order from the Court of Common Pleas are also required. **Auditor of State Bulletin 97-003** provides guidelines for inter-fund advances and indicates inter-fund advances should be approved by a formal resolution of the taxing authority.

Our testing of inter-fund transfers and advances revealed the following:

- In 2007, \$50,000 and \$180,000, respectively, was transferred from the General Fund’s Firestone Trust contributions into the Street Construction Repair and Maintenance Fund, and the Police Levy Fund without a Council resolution. These were adjusted to the financial statements and returned to the General Fund.
- In 2006, the Village Council granted discretionary authorization to the Fiscal Officer to transfer funds from the General Fund’s Firestone Trust contributions to the Police Levy Fund and Sewer Fund, if needed. Under this authority, \$50,000 was transferred to the Police Levy Fund and \$10,000 was transferred to the Sewer Fund from the General Fund. These were adjusted to the financial statements and returned to the General Fund.
- In 2006, \$9,000 was transferred from the General Fund into the Street Construction, Repair and Maintenance Fund, State Highway Tax Fund, and Permissive Tax Fund without a resolution or other Council authorization. This was adjusted to the financial statements and returned to the General Fund.
- In 2006, \$14,000 and \$16, respectively, was advanced from the General Fund to the Sewer Fund and Permissive Tax Fund, without a resolution or other Council authorization. These were adjusted to the financial statements and returned to the General Fund.

Council should not grant discretionary authority to the Fiscal Officer for making inter-fund transfers, and all inter-fund transfers and advances should be specifically approved by Council resolution pursuant to applicable Ohio Revised Code requirements.

Officials’ Response: Will get a resolution passed before transferring any money from the Firestone Trust into General, Street or Police and any other fund in the future.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Cash Procedures – Various errors and unsupported reconciling items were noted with the Village’s cash reconciliations.	No	Partially Corrected. See Finding Number 2007-002.
2005-002	Payroll Expenditures and Related Matters – Various calculation errors and omissions were identified within payroll reports and other remittance forms. Supervisors did not consistently review and approve payroll time sheets.	Yes	
2005-003	Non-payroll Expenditures – Various errors were identified including inconsistencies between check register entries and printed checks, unsupported payments, account posting errors, and lack of a credit card policy.	No	Partially Corrected. See Finding Number 2007-001.
2005-004	Cash Receipts – Various receipt posting errors were identified.	No	Repeated as Finding Number 2007-001
2005-005	Finding for Recovery – A Finding for Recovery for \$1,687.87 was issued against the former Fiscal Officer.	Yes	
2005-006	Ohio Rev. Code Section 5704.41(D) – Certain expenditures were not certified by the Fiscal Officer prior to incurring the obligation.	No	Repeated as Finding Number 2007-003

Village of Spencer
 Medina County
 Schedule of Prior Audit Findings
 Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-008	Ohio Rev. Code Section 5705.38 - Permanent appropriations were not approved and filed with the County Auditor.	Yes	
2005-009	Ohio Rev. Code Section 5705.10 – Various funds realized negative fund balances.	Yes	
2005-010	Ohio Rev. Code Section 5705.41(B) – Total expenditures were in excess of appropriations in certain fund accounts at year end.	Partially Corrected	Repeated as Management Letter comment.



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 30, 2008**