



Dave Yost • Auditor of State



**SPENCER TOWNSHIP  
ALLEN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2016 .....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2016 .....	4
Notes to the Financial Statements for the Year Ended December 31, 2016 .....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2015 .....	11
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2015 .....	12
Notes to the Financial Statements for the Year Ended December 31, 2015 .....	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19
Schedule of Findings .....	21
Prepared by Management:	
Summary Schedule of Prior Audit Findings .....	25

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Spencer Township  
Allen County  
11605 Spencerville Road  
Spencerville, Ohio 45887

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Spencer Township, Allen County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2016 and 2015, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Spencer Township, Allen County, as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of the Township'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 29, 2018

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$26,922	\$76,423	\$103,345
Licenses, Permits and Fees	965	20,116	21,081
Intergovernmental	26,178	114,612	140,790
Earnings on Investments	486	244	730
Miscellaneous	2,246	5,495	7,741
<i>Total Cash Receipts</i>	<u>56,797</u>	<u>216,890</u>	<u>273,687</u>
<b>Cash Disbursements</b>			
Current:			
General Government	30,383	39,210	69,593
Public Safety		26,679	26,679
Public Works	909	63,770	64,679
Health	16,968	42,822	59,790
Capital Outlay		23,421	23,421
<i>Total Cash Disbursements</i>	<u>48,260</u>	<u>195,902</u>	<u>244,162</u>
<i>Excess of Receipts Over Disbursements</i>	<u>8,537</u>	<u>20,988</u>	<u>29,525</u>
<b>Other Financing Receipts</b>			
Sale of Capital Assets		125	125
Other Financing Sources	297	3,251	3,548
<i>Total Other Financing Receipts</i>	<u>297</u>	<u>3,376</u>	<u>3,673</u>
<i>Net Change in Fund Cash Balances</i>	8,834	24,364	33,198
<i>Fund Cash Balances, January 1</i>	<u>128,316</u>	<u>274,474</u>	<u>402,790</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		223,028	223,028
Committed		75,810	75,810
Assigned	14,327		14,327
Unassigned	122,823		122,823
<i>Fund Cash Balances, December 31</i>	<u>\$137,150</u>	<u>\$298,838</u>	<u>\$435,988</u>

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

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Private Purpose Trust</u>
<b>Operating Cash Receipts</b>	
Earnings on Investments (trust funds only)	\$ 60
Miscellaneous	5,000
<i>Total Operating Cash Receipts</i>	<u>5,060</u>
<i>Net Change in Fund Cash Balance</i>	<u>5,060</u>
<i>Fund Cash Balances, January 1</i>	<u>4,073</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$ 9,133</u></u>

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



**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**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 Spencer Township, Allen County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Invincible Fire Company, Inc., Spencerville, Ohio to provide fire services and Spencerville Ambulance Services, Inc., to provide ambulance services.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA) to provide property and liability insurance. Note 8 to the financial statements provide additional information for this entity. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

**C. Deposits and Investments**

The Township'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.

**D. Fund Accounting**

The Township uses fund accounting to segregate cash and investments that are restricted as to use. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The Township classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue funds:

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

Road and Bridge Fund – This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund – This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

Cemetery Fund – This fund receives fees for cemetery plots and digging of the Township's cemetery.

**3. Fiduciary Funds**

Fiduciary funds include private purpose trust funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs.

The Township's private purpose trust fund is a non-expendable trust fund for which amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled, and are re-appropriated in the subsequent year.

A summary of 2016 budgetary activity appears in Note 4.

**F. Fund Balance**

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

**1. Nonspendable**

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

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

**5. Unassigned**

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

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

**G. Property, Plant, and Equipment**

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

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. EQUITY IN POOLED DEPOSITS**

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

	<u>2016</u>
Demand Deposits	\$ 309,453
STAR Ohio	<u>135,668</u>
Total deposits and investments	<u>\$ 445,121</u>

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

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

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**3. COMPLIANCE**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$5,610 for 2016.

**4. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$40,706	\$57,094	\$16,388
Special Revenue	177,144	220,266	43,122
Trust	5	5,060	5,055
Total	\$217,855	\$282,420	\$64,565

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,650	\$48,260	(\$5,610)
Special Revenue	305,147	195,902	109,245
Trust	30	0	30
Total	\$347,827	\$244,162	\$103,665

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**8. RISK MANAGEMENT**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016.

	<b>2016</b>
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<b><u>2016 Contributions to OTARMA</u></b>
\$3,978

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$23,444	\$64,562	\$88,006
Licenses, Permits and Fees	365	23,830	24,195
Intergovernmental	28,018	96,321	124,339
Earnings on Investments	118	52	170
Miscellaneous		15,350	15,350
<i>Total Cash Receipts</i>	<u>51,945</u>	<u>200,115</u>	<u>252,060</u>
<b>Cash Disbursements</b>			
Current:			
General Government	41,250	20,463	61,713
Public Safety		24,478	24,478
Public Works	1,027	109,990	111,017
Health	9,179	42,505	51,684
Capital Outlay		18,447	18,447
<i>Total Cash Disbursements</i>	<u>51,456</u>	<u>215,883</u>	<u>267,339</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>489</u>	<u>(15,768)</u>	<u>(15,279)</u>
<b>Other Financing Receipts</b>			
Sale of Capital Assets		2,750	2,750
Other Financing Sources	418	416	834
<i>Total Other Financing Receipts</i>	<u>418</u>	<u>3,166</u>	<u>3,584</u>
<i>Net Change in Fund Cash Balances</i>	907	(12,602)	(11,695)
<i>Fund Cash Balances, January 1</i>	<u>127,409</u>	<u>287,076</u>	<u>414,485</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		213,437	213,437
Committed		61,037	61,037
Unassigned	128,316		128,316
<i>Fund Cash Balances, December 31</i>	<u>\$128,316</u>	<u>\$274,474</u>	<u>\$402,790</u>

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

SPENCER TOWNSHIP  
ALLEN COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
FIDUCIARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Private Purpose Trust</u>
<b>Operating Cash Receipts</b>	
Earnings on Investments (trust funds only)	\$5
<i>Total Operating Cash Receipts</i>	<u>5</u>
<i>Net Change in Fund Cash Balance</i>	<u>5</u>
<i>Fund Cash Balances, January 1</i>	<u>4,068</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$4,073</u></u>

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



**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**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 Spencer Township, Allen County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Invincible Fire Company, Inc., Spencerville, Ohio to provide fire services and Spencerville Ambulance Services, Inc., to provide ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(0). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(0) permit.

**C. Deposits and Investments**

The Township'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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

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

**Gasoline Tax Fund** – This fund receives gasoline tax money to pay for constructing, maintaining and repairing Township roads.

**Road and Bridge Fund** - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

**Cemetery Fund** – This fund receives fees for cemetery plots and digging of the Township's cemetery.

**3. Fiduciary Funds**

Fiduciary funds include private purpose trust funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs.

The Township's private purpose trust fund is a non-expendable trust fund for which amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Encumbered appropriations lapse at year-end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and are re-appropriated in the subsequent year.

A summary of 2015 budgetary activity appears in Note 3.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

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

**F. Fund Balance**

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

**1. Non-spendable**

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

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

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

**5. Unassigned**

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

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

**G. Property, Plant, and Equipment**

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

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

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

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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

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

Demand Deposits	\$271,917
STAR Ohio	<u>134,946</u>
Total deposits and investments	<u><u>\$406,863</u></u>

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

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,692	\$52,363	(\$5,329)
Special Revenue	182,308	203,281	20,973
Fiduciary	2	5	3
	<u>\$240,002</u>	<u>\$255,649</u>	<u>\$15,647</u>

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgetary Authority	Expenditures	Variance
General	\$66,396	\$51,456	\$14,940
Special Revenue	301,426	215,883	85,543
Fiduciary	24	0	24
	<u>\$367,846</u>	<u>\$267,339</u>	<u>\$100,507</u>

**4. PROPERTY TAX**

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

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**4. PROPERTY TAX (Continued)**

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

**5. RETIREMENT SYSTEMS**

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. 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 2015, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

**6. POSTEMPLOYMENT BENEFITS**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**7. RISK MANAGEMENT**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2015 and 2014.

	2015	2014
Assets	\$37,313,311	\$35,970,263
Liabilities	8,418,518	8,912,432
Net Position	\$28,894,793	\$27,057,831

At December 31, 2015 and 2014, respectively, the liabilities above include approximately \$7.8 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.7 and \$7.2 million of unpaid claims to be billed to approximately 989 members and 957 member governments in the future, as of December 31, 2015 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015 the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Contributions to OTARMA
2015
\$3,608

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



# Dave Yost • Auditor of State

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

Spencer Township  
Allen County  
11605 Spencerville Road  
Spencerville, Ohio 45887

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Spencer Township, Allen County, (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated March 29, 2018, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Township'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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-003.

***Township's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 29, 2018



SPENCER TOWNSHIP  
ALLEN COUNTY

SCHEDULE OF FINDINGS  
FOR THE YEARS ENDING DECEMBER 31, 2016 AND 2015

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

Private Purpose Trust Funds

FINDING NUMBER 2016-001

**MATERIAL WEAKNESS**

Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, paragraph 72 *Private-purpose trust funds* (GASB cod. 1300.113) and Auditor of State Bulletin 2011-004 notes that these funds should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Township classified its Blythe Bequest Fund that is to be used to provide flowers for the Blythe family plots as a Permanent Fund at December 31, 2016 with a balance of \$5,000 instead of as a private purpose trust fund. Also, the Township posted interest received on private purpose trust funds to permanent funds for the audit period.

The impact on the fund type balances at December 31, 2016 is as follows:

<b>Fund Type</b>	<b>Amount</b>
Private Purposes Trust Fund	\$5,034
Permanent Fund	(5,034)

The impact on the fund type balances at December 31, 2015 is as follows:

<b>Fund Type</b>	<b>Amount</b>
Private Purposes Trust Fund	\$5
Permanent Fund	(5)

The accompanying financial statements have been adjusted to reclassify the Blythe Bequest Fund from a Permanent Fund to a Private Purpose Trust Fund thus eliminating the reporting of any permanent funds.

By not properly presenting the funds received with restrictions, the activity may be used for improper purposes.

The Township should have procedures and controls in place to prevent and detect errors in the financial statements.

**Official’s Response:**

This issue has been resolved.

## Classification of Financial Activity

### FINDING NUMBER 2016-002

#### **MATERIAL WEAKNESS**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Township should have procedures and controls in place to provide that all financial transactions are correctly recorded in the Uniform Accounting Network (UAN) system and financial statements to assist in the effective management and reporting of financial resources. The following adjustments were made to the Township's financial statements.

For 2016 and 2015, Tangible Personal Property Taxes were improperly allocated and posted as Property and Other Local Taxes rather than Intergovernmental Revenue affecting the General Fund, Road and Bridge Fund, and the Fire Fund.

- For 2016, this resulted an increase in intergovernmental revenue by \$662, a decrease in property taxes by \$765, and a decrease in fund balance by \$103 in the General fund; an increase to intergovernmental revenue by \$1,283, a decrease in property taxes by \$900, and an increase to fund balance by \$383 in the Road and Bridge fund; and an increase in intergovernmental revenue of \$621, a decrease in property taxes by \$900, and a decrease in fund balance by \$279 for the Fire Fund.
- For 2015, this resulted in an increase of intergovernmental revenue by \$1,261, a decrease in property taxes by \$2,481 and a decrease in fund balance by \$1,220 in the General fund; an increase in intergovernmental revenue by \$2,445, a decrease in property taxes by \$1,204 and an increase in fund balance by \$1,241 in the Road and Bridge fund; and an increase in intergovernmental revenue by \$1,183, a decrease in property taxes by \$1,204, and a decrease in fund balance by \$21 in the Fire Fund.

In 2016, Gas tax receipts were incorrectly posted to the General Fund instead of the Gas Tax fund resulting in a decrease in intergovernmental revenue by \$2,632 in General fund and an increase of intergovernmental revenue by \$2,632 in the Gas tax fund.

Property Taxes and Homestead and Rollback revenue were misclassified and not properly allocated during 2016. This resulted in:

- an increase in public safety disbursements of \$182, an increase in intergovernmental revenue by \$928, a decrease in property taxes by \$6,720, and a decrease in fund balance by \$5,974 in the Fire Fund;
- an increase in public works expenditures of \$433, an increase in intergovernmental revenue by \$8,618, an increase in property taxes by \$988, and an increase in fund balance by \$9,173 for the Road and Bridge Fund;
- an increase in health disbursements by \$5,787, an increase in intergovernmental revenue by \$3,279, an increase in general government disbursements by \$785, an increase in property taxes by \$164, and a decrease in fund balance by \$3,129 for the General Fund.

Overpayments were made to OPERS and the IRS for income taxes remitted which resulted in refunds. The Fiscal Officer attempted to correct the error using fund balance adjustments; however, these were incorrect and therefore, needed to be reversed, resulting in the following adjustments for 2016:

**FINDING NUMBER 2016-002  
(Continued)**

- For the General Fund, an increase in ending fund balance by \$8,869, an increase in beginning balance by \$9,968, an increase in miscellaneous revenue by \$2,246, an increase in general government disbursements by \$1,335, and an increase in health disbursements by \$2,010.
- For the Gas Tax Fund, an increase in miscellaneous revenue by \$515, an increase in public works disbursements by \$1,885, a decrease in beginning balance by \$515, and a decrease in ending fund balance by \$1,885.

Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB Codification 1800.168-1800.177) - Fund Balance Reporting and Governmental Fund Type Definitions gives definitions for each of the following fund types General, Special Revenue, Capital Project, Debt Service, and Permanent. GASB Statement No. 54 also establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The following error was noted as a result of the Township not properly implementing GASB Statement No 54:

- In 2016, a portion of the General Fund balance was reclassified from unassigned to assigned in the amount of \$14,327 to properly reflect 2017 appropriations made that exceeded 2017 estimated receipts per GASB 54 guidance.

The above noted adjustments are reflected in the accompanying financial statements and the Township's ledgers. In addition to the adjustments listed above, we also identified additional misstatements in the amounts of \$877 and \$999 for 2015 that we have brought to the Township's attention.

Errors in the financial statements and/or accounting records inhibit the ability of both the Fiscal Officer and the Board of Township Trustees to monitor financial activity and to make sound financial decisions. Reliance on financial information that contains errors could result in noncompliance with laws and regulations applicable to the Township. In addition, financial information with errors reduces the likelihood that irregularities will be detected in a timely manner.

The errors identified above should be reviewed by the Fiscal Officer to help prevent similar errors in the financial statements and/or accounting records in subsequent years. The Board of Township Trustees should periodically review the accounting records to help identify and correct errors prior to completion of the annual financial statements. In addition, the Fiscal Officer should review the Uniform Accounting Network (UAN) Handbook, Auditor of State Bulletins, and other resources which can be found on the Auditor of State Website at <https://ohioauditor.gov/> for guidance in recording of financial activity.

**Official's Response:**

Issues have been corrected for the audit period and will be properly reported in the future.

**Expenditures Exceeding Appropriations**

**FINDING NUMBER 2016-003**

**NON COMPLIANCE**

**Ohio Rev. Code § 5705.41(B)** states, in part, that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

Expenditures exceeded appropriations for the General Fund in 2016 by \$5,610.

Failure to follow applicable budgetary laws is a violation of the Ohio Revised Code and could result in overspending of resources and deficit fund balances.

The Township should implement procedures to ensure that all applicable budgetary laws are followed. The Board of Trustees should review budgetary information to assure that expenditures are made in accordance with the approved appropriations, and that overspending does not occur.

**Official's Response:**

Procedures will be implemented to assure all budgetary laws are followed.

**SPENCER TOWNSHIP  
ALLEN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016 AND 2015**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2014-001	Ohio Revised Code 505.24(C) Trustee's Salary and Insurance Reimbursement Allocation- Noncompliance/Material Weakness	Partially corrected.	See Management letter
2014-002	Private Purpose Trust Funds – Noncompliance/Material Weakness	Partially Corrected – Blythe Funds need to be set up as a private purpose trust fund.	See Finding 2016-001
2014-003	Classification of Financial Activity – Material Weakness	Not corrected.	See Finding 2016-002

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# Dave Yost • Auditor of State

**SPENCER TOWNSHIP**

**ALLEN 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  
MAY 10, 2018**