



Dave Yost • Auditor of State

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Spencerville
Allen County
116 S. Broadway St.
Spencerville, OH 45887

To the Village Council:

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 the Village of Spencerville, Allen County, Ohio (the Village) 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 Village'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 Village's internal control. Accordingly, we express no such 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 opinions.

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

As described in Note 2 of the financial statements, the Village 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 Village 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 *Unmodified Opinions* 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 Village as of December 31, 2016 and 2015, and the respective changes in financial position or cash flows thereof for the years then ended.

Basis for Additional Opinion Qualification

Municipal income taxes are reported at \$754,468, and \$607,620 for the years ended December 31, 2016 and 2015, respectively, which are 63 percent of General Fund receipts, 64 percent of Special Revenue funds receipts, and 98 percent of Capital Project funds receipts for the year ended December 31, 2016, and 65 percent of General Fund receipts, 40 percent of Special Revenue funds receipts, and 95 percent of Capital Project funds receipts for the year ended December 31, 2015. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as municipal income tax receipts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements of the General, Special Revenue, and Capital Projects funds, and related notes of the Village of Spencerville, Allen County as of December 31, 2016 and 2015 and 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 2.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements of the Enterprise and Agency funds, and related notes of the Village of Spencerville, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018, 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. 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 Village's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

August 30, 2018

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Village of Spencerville
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

| | General | Special Revenue | Capital Projects | Totals |
|--|------------------|--------------------|---------------------|------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$75,543 | \$12,519 | | \$88,062 |
| Municipal Income Tax | 273,936 | 297,908 | \$182,624 | 754,468 |
| Intergovernmental | 57,393 | 146,010 | 1,500 | 204,903 |
| Charges for Services | 4,906 | | | 4,906 |
| Fines, Licenses and Permits | 22,008 | | | 22,008 |
| Earnings on Investments | 137 | 9 | | 146 |
| Miscellaneous | 1,078 | 5,648 | 2,313 | 9,039 |
| <i>Total Cash Receipts</i> | <u>435,001</u> | <u>462,094</u> | <u>186,437</u> | <u>1,083,532</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 280,376 | 74,303 | | 354,679 |
| Public Health Services | 2,422 | | | 2,422 |
| Leisure Time Activities | 4,000 | | | 4,000 |
| Transportation | | 135,552 | | 135,552 |
| General Government | 89,648 | 161,917 | | 251,565 |
| Capital Outlay | | 5,000 | 154,567 | 159,567 |
| Debt Service: | | | | |
| Principal Retirement | | 1,493 | 75,000 | 76,493 |
| Interest and Fiscal Charges | | | 2,062 | 2,062 |
| <i>Total Cash Disbursements</i> | <u>376,446</u> | <u>378,265</u> | <u>231,629</u> | <u>986,340</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>58,555</u> | <u>83,829</u> | <u>(45,192)</u> | <u>97,192</u> |
| Other Financing (Disbursements) | | | | |
| Transfers Out | (10,000) | | | (10,000) |
| <i>Total Other Financing (Disbursements)</i> | <u>(10,000)</u> | | | <u>(10,000)</u> |
| <i>Net Change in Fund Cash Balances</i> | 48,555 | 83,829 | (45,192) | 87,192 |
| <i>Fund Cash Balances, January 1</i> | <u>143,282</u> | <u>297,889</u> | <u>342,342</u> | <u>783,513</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | | 381,718 | 297,150 | 678,868 |
| Assigned | 39,278 | | | 39,278 |
| Unassigned | 152,559 | | | 152,559 |
| <i>Fund Cash Balances, December 31</i> | <u>\$191,837</u> | <u>\$381,718</u> | <u>\$297,150</u> | <u>\$870,705</u> |

See accompanying notes to the basic financial statements

Village of Spencerville
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2016

| | Proprietary Fund Types | Fiduciary Fund Types | Totals |
|---|-------------------------|----------------------|-------------------------|
| | Enterprise | Agency | |
| Operating Cash Receipts | | | |
| Charges for Services | \$1,099,778 | | \$1,099,778 |
| Fines, Licenses and Permits | | \$7,526 | 7,526 |
| <i>Total Operating Cash Receipts</i> | <u>1,099,778</u> | <u>7,526</u> | <u>1,107,304</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 240,885 | | 240,885 |
| Employee Fringe Benefits | 99,460 | | 99,460 |
| Contractual Services | 295,317 | | 295,317 |
| Supplies and Materials | 132,541 | | 132,541 |
| Other | 15,362 | 7,526 | 22,888 |
| <i>Total Operating Cash Disbursements</i> | <u>783,565</u> | <u>\$7,526</u> | <u>791,091</u> |
| <i>Operating Income</i> | <u>316,213</u> | | <u>316,213</u> |
| Non-Operating Receipts (Disbursements) | | | |
| Earnings on Investments (proprietary funds only) | 97 | | 97 |
| Miscellaneous Receipts | 10,613 | | 10,613 |
| Other Debt Proceeds | 25,802 | | 25,802 |
| Capital Outlay | (55,802) | | (55,802) |
| Principal Retirement | (255,033) | | (255,033) |
| Interest and Other Fiscal Charges | (18,940) | | (18,940) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(293,263)</u> | | <u>(293,263)</u> |
| <i>Income before Transfers</i> | 22,950 | | 22,950 |
| Transfers In | 151,588 | | 151,588 |
| Transfers Out | (141,588) | | (141,588) |
| <i>Net Change in Fund Cash Balances</i> | 32,950 | | 32,950 |
| <i>Fund Cash Balances, January 1</i> | <u>761,678</u> | | <u>761,678</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$794,628</u></u> | | <u><u>\$794,628</u></u> |

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government and employs a Village Administrator. Elected officers include six council members, a clerk/treasurer, and a mayor. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and emergency medical services.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds are used to account for proceeds of specific sources (other than from trusts or for capital projects) that are restricted to expenditures for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village street. This fund receives 92.5% of the above tax money.

Income Tax Fund – This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2016 was 1.5%. Net collections are then disbursed to other funds per ordinances.

Capital Project Funds These funds are used to account for receipts that are restricted, committed or assigned for the acquisition or construction of major capital projects. This fund also receives a share of the local income tax.

Enterprise Funds These funds account for operations that are similar to private business enterprises, where management intends to that the costs of providing certain services will be recovered through user charges. The Village had the following Enterprise Funds:

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Water Operating Fund – This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

Sewer Operating Fund – This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency 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 Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village has the following Agency Fund:

Mayor's Court Fund – This agency fund records the financial activity of the Village's Mayor's Court.

Basis of Accounting

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.

Budgetary Process

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

Appropriations Budgetary expenditures (disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

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.

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

A summary of 2016 budgetary activity appears in Note 4.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

Fund Balance

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

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

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.

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

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

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

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 3 – Deposits 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 deposits and investments at December 31 was as follows:

| | |
|--------------------------------|-------------|
| | 2016 |
| Demand deposits | \$1,665,333 |
| Total deposits and investments | \$1,665,333 |

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

Note 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 | \$453,785 | \$435,001 | (\$18,784) |
| Special Revenue | 901,020 | 462,094 | (438,926) |
| Capital Projects | 198,000 | 186,437 | (11,563) |
| Enterprise | 1,543,182 | 1,287,878 | (255,304) |
| Total | \$3,095,987 | \$2,371,410 | (\$724,577) |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$466,525 | \$386,446 | \$80,079 |
| Special Revenue | 1,044,052 | 378,265 | 665,787 |
| Capital Projects | 265,000 | 231,629 | 33,371 |
| Enterprise | 1,654,215 | 1,254,928 | 399,287 |
| Total | \$3,429,792 | \$2,251,268 | \$1,178,524 |

Note 5 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which rate are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment the first half is due December 31 and the second half is due the following June 20.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 5 – Taxes (Continued)

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

Income Taxes

The Village levies a municipal income tax of 1.5% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

In 2016 Income Tax receipts were \$754,468 which is recorded in the Income Tax Fund, special revenue and net receipts (after the costs of collection) are transferred to General Fund, Capital Projects Fund and Police Enforcement Fund per ordinance. Transfers for 2016 were General Fund - \$273,936, Capital Projects Fund - \$182,624 and Police Enforcement special revenue fund - \$98,679.

Note 6 - Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016.

| | |
|-----------------|---------------------|
| | <u>2016</u> |
| Assets | \$14,765,712 |
| Liabilities | <u>(9,531,506)</u> |
| Members' Equity | <u>\$ 5,234,206</u> |

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 6 - Risk Management (Continued)

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some 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 Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System

The Village's full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 12.25% of their wages for 2016. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

Social Security

Several of the Village's employees contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016. OP&F contributes 0.5 percent to fund these benefits.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|-------------------------------------|-------------|---------------|
| OPWC Sanitary Sewer Phase III Loan | \$21,648 | 0.00% |
| OWDA Water Tower Replacement Loan | 222,643 | 2.00% |
| General Obligation Bonds - Water | 210,000 | 4.95% |
| OPWC Water Tower Loan - Planning | 18,370 | 0.00% |
| OPWC Water Distribution System Loan | 37,500 | 0.00% |
| OPWC Downtown Streetscape Loan | 20,149 | 0.00% |
| OWDA Water Distribution Study Loan | 7,601 | 0.00% |
| OWDA WTP Construction Loan | 1,582,322 | 0.00% |
| Total | \$2,120,233 | |

1998 General Obligation Bonds:

In 1998, the Village issued \$900,000 in general obligation bonds payable in semiannual payments on April 1 and October 1 through 2016 at a rate of 4% - 5.5%. The bonds are paid from the Capital Projects fund. These bonds were paid off during 2016.

1998 Sewer Revenue Bonds:

In 1998, the Village issued First Mortgage Sewer System Revenue Bonds, Series 1998 in the amount of \$2,000,000 for improvements to the sewer systems. The bonds are payable in semiannual payments on April 1 and October 1 through 2016 at a rate of 4% - 5.6%. The bonds are secured by sewer rates. These bonds were paid off during 2016.

OPWC Sanitary Sewer Phase III Loan:

In 2000, the Village obtained a loan in the amount of \$123,702 for 20 years for the rehabilitation of sanitary sewers. The loan is payable in semiannual payments of \$3,093 on January 31 and July 1 through January 2020 at a rate of 0%. The loan is secured by sewer rates.

OWDA Water Tower Replacement Loan:

In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

General Obligation Bonds - Water:

In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

OPWC Water Tower Loan – Planning:

In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

OPWC Water Distribution System Loan:

In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 9 – Debt (Continued)

OPWC Downtown Streetscape Loan:

In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%. Payments are made from the Street Construction and Maintenance special revenue fund.

OWDA Water Distribution Study Loan:

In 2012, the Village obtained a \$25,337 loan for 5 years for a water distribution study. Semiannual payments of \$2,534 are due on January 1 and July 1 with final payment July 2018 at a rate of 0%. The loan is secured by water rates.

OWDA WTP Construction Loan:

In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

Amortization

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

| Year Ending December 31: | OWDA Loans | General Obligation Bonds | OPWC Loans |
|-----------------------------|---------------|--------------------------------|------------|
| 2017 | \$89,453 | \$50,193 | \$14,427 |
| 2018 | 86,920 | 48,292 | 14,427 |
| 2019 | 84,386 | 46,373 | 14,427 |
| 2020 | 84,386 | 49,433 | 11,335 |
| 2021 | 84,386 | 47,227 | 8,242 |
| 2022-2026 | 421,930 | | 28,710 |
| 2027-2031 | 298,551 | | 6,098 |
| 2032-2036 | 298,551 | | |
| 2037-2041 | 298,551 | | |
| 2042 | 58,123 | | |
| Total | \$1,805,237 | \$241,518 | \$97,666 |

Village of Spencerville
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

| | General | Special Revenue | Capital Projects | Totals |
|--|------------------|--------------------|---------------------|------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$66,345 | \$14,066 | | \$80,411 |
| Municipal Income Tax | 296,322 | 113,750 | \$197,548 | 607,620 |
| Intergovernmental | 62,518 | 149,591 | 9,934 | 222,043 |
| Charges for Services | 7,464 | | | 7,464 |
| Fines, Licenses and Permits | 19,566 | | | 19,566 |
| Earnings on Investments | 97 | 11 | | 108 |
| Miscellaneous | 5,705 | 7,880 | | 13,585 |
| <i>Total Cash Receipts</i> | <u>458,017</u> | <u>285,298</u> | <u>207,482</u> | <u>950,797</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 292,490 | 79,733 | | 372,223 |
| Public Health Services | 5,044 | | | 5,044 |
| Leisure Time Activities | 3,000 | | | 3,000 |
| Community Environment | 2,000 | | | 2,000 |
| Transportation | | 155,486 | | 155,486 |
| General Government | 87,347 | 25,215 | | 112,562 |
| Capital Outlay | | 41,968 | 80,663 | 122,631 |
| Debt Service: | | | | |
| Principal Retirement | | 1,493 | 70,000 | 71,493 |
| Interest and Fiscal Charges | | | 6,050 | 6,050 |
| <i>Total Cash Disbursements</i> | <u>389,881</u> | <u>303,895</u> | <u>156,713</u> | <u>850,489</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>68,136</u> | <u>(18,597)</u> | <u>50,769</u> | <u>100,308</u> |
| Other Financing (Disbursements) | | | | |
| Transfers Out | (5,000) | | | (5,000) |
| <i>Total Other Financing (Disbursements)</i> | <u>(5,000)</u> | | | <u>(5,000)</u> |
| <i>Net Change in Fund Cash Balances</i> | 63,136 | (18,597) | 50,769 | 95,308 |
| <i>Fund Cash Balances, January 1</i> | <u>80,146</u> | <u>316,486</u> | <u>291,573</u> | <u>688,205</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | | 297,889 | 342,342 | 640,231 |
| Assigned | 21,623 | | | 21,623 |
| Unassigned | 121,659 | | | 121,659 |
| <i>Fund Cash Balances, December 31</i> | <u>\$143,282</u> | <u>\$297,889</u> | <u>\$342,342</u> | <u>\$783,513</u> |

See accompanying notes to the basic financial statements

Village of Spencerville
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2015

| | <u>Proprietary Fund Types</u> | <u>Fiduciary Fund Types</u> | <u>Totals</u> |
|---|-------------------------------|-----------------------------|------------------|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts | | | |
| Charges for Services | \$1,133,625 | | \$1,133,625 |
| Fines, Licenses and Permits | | \$6,737 | 6,737 |
| <i>Total Operating Cash Receipts</i> | <u>1,133,625</u> | <u>6,737</u> | <u>1,140,362</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 245,609 | | 245,609 |
| Employee Fringe Benefits | 102,819 | | 102,819 |
| Contractual Services | 309,557 | | 309,557 |
| Supplies and Materials | 151,304 | | 151,304 |
| Other | 18,084 | 6,737 | 24,821 |
| <i>Total Operating Cash Disbursements</i> | <u>827,373</u> | <u>\$6,737</u> | <u>834,110</u> |
| <i>Operating Income</i> | <u>306,252</u> | | <u>306,252</u> |
| Non-Operating Receipts (Disbursements) | | | |
| Earnings on Investments (proprietary funds only) | 119 | | 119 |
| Other Debt Proceeds | 25,092 | | 25,092 |
| Miscellaneous Receipts | 1,601 | | 1,601 |
| Capital Outlay | (35,912) | | (35,912) |
| Principal Retirement | (288,499) | | (288,499) |
| Interest and Other Fiscal Charges | (27,965) | | (27,965) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(325,564)</u> | | <u>(325,564)</u> |
| <i>Income (Loss) before Transfers</i> | (19,312) | | (19,312) |
| Transfers In | 184,082 | | 184,082 |
| Transfers Out | (179,082) | | (179,082) |
| <i>Net Change in Fund Cash Balances</i> | (14,312) | | (14,312) |
| <i>Fund Cash Balances, January 1</i> | <u>775,990</u> | | <u>775,990</u> |
| <i>Fund Cash Balances, December 31</i> | <u>\$761,678</u> | | <u>\$761,678</u> |

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government and employs a Village Administrator. Elected officers include six council members, a clerk/treasurer, and a mayor. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and emergency medical services.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds are used to account for proceeds of specific sources (other than from trusts or for capital projects) that are restricted to expenditures for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village street. This fund receives 92.5% of the above tax money.

Income Tax Fund – This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2015 was 1.5%. Net collections are then disbursed to other funds per ordinances.

Police Enforcement Fund – This fund receives a share of the net local income tax collected (.25%) and is used to supplement the police department salaries, wages and other operating expenses.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Project Funds These funds are used to account for receipts that are restricted, committed or assigned for the acquisition or construction of major capital projects. This fund also receives a share of the local income tax.

Enterprise Funds These funds account for operations that are similar to private business enterprises, where management intends to that the costs of providing certain services will be recovered through user charges. The Village had the following Enterprise Funds:

Water Operating Fund – This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

Sewer Operating Fund – This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency 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 Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village has the following Agency Fund:

Mayor's Court Fund – This agency fund records the financial activity of the Village's Mayor's Court.

Basis of Accounting

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.

Budgetary Process

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

Appropriations Budgetary expenditures (disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

A summary of 2015 budgetary activity appears in Note 4.

Deposits and Investments

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

Fund Balance

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

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

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.

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

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

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.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Note 3 – Deposits 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 deposits and investments at December 31 was as follows:

| | |
|--------------------------------|---------------------------|
| | <u>2015</u> |
| Demand deposits | <u>\$1,545,191</u> |
| Total deposits and investments | <u><u>\$1,545,191</u></u> |

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

Note 4 - 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 | \$419,302 | \$458,017 | \$38,715 |
| Special Revenue | 834,890 | 285,298 | (549,592) |
| Capital Projects | 209,000 | 207,482 | (1,518) |
| Enterprise | 1,315,792 | 1,344,519 | 28,727 |
| Total | <u><u>\$2,778,984</u></u> | <u><u>\$2,295,316</u></u> | <u><u>(\$483,668)</u></u> |

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$440,925 | \$394,881 | \$46,044 |
| Special Revenue | 942,752 | 303,895 | 638,857 |
| Capital Projects | 244,000 | 156,713 | 87,287 |
| Enterprise | 1,471,192 | 1,358,831 | 112,361 |
| Total | <u><u>\$3,098,869</u></u> | <u><u>\$2,214,320</u></u> | <u><u>\$884,549</u></u> |

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 5 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which rate are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment the first half is due December 31 and the second half is due the following June 20.

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

Income Taxes

The Village levies a municipal income tax of 1.5% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

In 2015 Income Tax receipts were \$607,620 which is recorded in the Income Tax special revenue fund and net receipts (after the costs of collection) are transferred to General Fund, Capital Projects Fund and Police Enforcement Fund per ordinance. Transfers for 2015 were General Fund - \$296,322, Capital Projects Fund - \$197,548 and Police Enforcement special revenue fund - \$89,370.

Note 6 - Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 6 - Risk Management (Continued)

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015 and 2014.

| | 2015 | 2014 |
|-----------------|--------------|--------------|
| Assets | \$14,643,667 | \$14,830,185 |
| Liabilities | (9,112,030) | (8,942,504) |
| Members' Equity | \$5,531,637 | \$5,887,681 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some 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 Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System

The Village's full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 11.5% of their wages for the period January 1, 2015 to June 30, 2015 and 12.25% of their wages for the period July 1, 2015 to December 31, 2015. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2015.

Social Security

Several of the Village's employees contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. OP&F contributes 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

| | Principal | Interest Rate |
|-------------------------------------|-------------|---------------|
| 1998 General Obligation Bonds | \$75,000 | 5.50% |
| 1998 Sewer Revenue Bonds | 56,667 | 5.60% |
| OPWC Sanitary Sewer Phase III Loan | 27,833 | 0.00% |
| OWDA Water Tower Replacement Loan | 242,566 | 2.00% |
| General Obligation Bonds - Water | 245,000 | 4.65% |
| OPWC Water Tower Loan - Planning | 20,119 | 0.00% |
| OPWC Water Distribution System Loan | 42,500 | 0.00% |
| OPWC Downtown Streetscape Loan | 21,641 | 0.00% |
| OWDA Water Distribution Study Loan | 12,668 | 0.00% |
| OWDA WTP Construction Loan | 1,610,590 | 0.00% |
| Total | \$2,354,584 | |

1998 General Obligation Bonds:

In 1998, the Village issued \$900,000 in general obligation bonds payable in semiannual payments on April 1 and October 1 through 2016 at a rate of 4% - 5.5%. The bonds are paid from the Capital Projects fund.

1998 Sewer Revenue Bonds:

In 1998, the Village issued First Mortgage Sewer System Revenue Bonds, Series 1998 in the amount of \$2,000,000 for improvements to the sewer systems. The bonds are payable in semiannual payments on April 1 and October 1 through 2016 at a rate of 4% - 5.6%. The bonds are secured by sewer rates.

OPWC Sanitary Sewer Phase III Loan:

In 2000, the Village obtained a loan in the amount of \$123,702 for 20 years for the rehabilitation of sanitary sewers. The loan is payable in semiannual payments of \$3,093 on January 31 and July 1 through January 2020 at a rate of 0%. The loan is secured by sewer rates.

OWDA Water Tower Replacement Loan:

In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

General Obligation Bonds - Water:

In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Note 9 – Debt (Continued)

OPWC Water Tower Loan – Planning:

In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

OPWC Water Distribution System Loan:

In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

OPWC Downtown Streetscape Loan:

In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%. Payments are made from the Street Construction and Maintenance special revenue fund.

OWDA Water Distribution Study Loan:

In 2012, the Village obtained a \$25,337 loan for 5 years for a water distribution study. Semiannual payments of \$2,534 are due on January 1 and July 1 with final payment July 2018 at a rate of 0%. The loan is secured by water rates.

OWDA WTP Construction Loan:

In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

Amortization

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

| Year Ending December 31: | OWDA Loans | General Obligation Bonds | OPWC Loans |
|-----------------------------|---------------|--------------------------------|------------|
| 2016 | \$89,453 | \$183,740 | \$14,427 |
| 2017 | 89,453 | 50,193 | 14,427 |
| 2018 | 86,920 | 48,292 | 14,427 |
| 2019 | 84,386 | 46,373 | 14,427 |
| 2020 | 84,386 | 49,432 | 11,335 |
| 2021-2025 | 421,930 | 47,228 | 33,710 |
| 2026-2030 | 323,227 | | 9,341 |
| 2031-2035 | 298,551 | | |
| 2036-2040 | 298,551 | | |
| 2041-2043 | 117,833 | | |
| Total | \$1,894,690 | \$425,258 | \$112,094 |



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*

Village of Spencerville
Allen County
116 S. Broadway St.
Spencerville, OH 45887

To the Village Council:

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 the Village of Spencerville, Allen County, (the Village) 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 August 30, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion on the General, Special Revenue, and Capital Projects funds due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as municipal income tax receipts.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village'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 Village'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 Village'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 through 2016-003 to be material weaknesses.

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, 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 2016-001.

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 Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

August 30, 2018

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2016-001

NONCOMPLIANCE/MATERIAL WEAKNESS

Posting of Receipts and Disbursements

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for 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.

Ohio Rev. Code § 733.28 requires that the Village Clerk/Treasurer shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. Additionally, **Ohio Admin. Code § 117-2-02(A)**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report the transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village did not properly classify various receipt and disbursement transactions due to lack of proper procedures in place for recording activity and the lack of proper reviewing and monitoring procedures of financial information. The following errors were noted on the Village's annual reports:

Property Taxes and Intergovernmental Errors:

- During 2015, the State Highway gas tax revenue was incorrectly posted as property and other local taxes receipts, rather than intergovernmental receipts in the Street Construction Maintenance and Repair (SCMR) and the State Highway special revenue funds. This resulted in an increase to intergovernmental receipts and a decrease to property and other local taxes receipts of \$30,656 in the SCMR special revenue fund and \$2,486 in the State Highway special revenue fund.
- During 2016, property tax receipts were incorrectly posted as intergovernmental receipts and were recorded at net value in the General fund, which resulted in a decrease to intergovernmental receipts of \$28,008, and an increase to general government disbursements of \$2,601, and an increase to property and other local taxes receipts of \$30,609.
- During 2016, a police grant was incorrectly posted to a Permissive Motor Vehicle License Tax (PMVLT) fund in the amount of \$1,760. The related expenditures for the grant were posted to the General fund. This resulted in an increase in intergovernmental receipts and fund balance in the General fund and a decrease in intergovernmental receipts and fund balance in the PMVLT fund.
- Liquor permit revenue received in 2016 was improperly posted to the PMVLT fund rather than the General fund in the amount of \$928. This resulted in an increase in intergovernmental receipts and fund balance in the General fund and a decrease in intergovernmental receipts and fund balance in the PMVLT fund.

**FINDING NUMBER 2016-001
(Continued)**

- Gasoline tax and state highway tax revenue was improperly posted in several instances during 2016. This resulted in the following adjustments:
 - General fund: decrease in intergovernmental receipts and unassigned fund balance of \$5,514;
 - SCMR fund: increase in intergovernmental receipts of \$43,995, decrease in property and other local taxes receipts of \$17,997, and an increase in restricted fund balance of \$25,998;
 - State Highway fund: decrease in intergovernmental receipts of \$4,033, decrease in property and other local taxes receipts of \$4,104 and a decrease in restricted fund balance of \$8,137; and
 - PMVLT fund: decrease in property and other local taxes receipts and fund balance of \$12,347.
- During 2016, Local government money was improperly posted to the SCMR, State Highway, and Permissive Motor Vehicle License Tax special revenue funds rather than the General fund resulting in the following adjustments:
 - SCMR fund: decrease in property and other local taxes receipts of \$3,425, decrease in intergovernmental receipts of \$3,538, and a decrease in restricted fund balance of \$6,963;
 - State Highway fund: decrease in intergovernmental receipts and restricted fund balance of \$227;
 - PMVLT fund: decrease in property and other local taxes receipts and assigned fund balance of \$4,003; and
 - General fund: increase in intergovernmental receipts and unassigned fund balance of \$11,193.

Debt Errors:

The recording of the Water Fund debt final closing activity was not properly recorded in 2015 and resulted in the following adjustments:

- Decrease in Capital Projects fund interest and fiscal charges disbursements and an increase in restricted fund balance in the amount of \$5,919 and a corresponding increase in interest and fiscal charges and a decrease in fund cash balance in the Water fund during 2015. This also resulted in an increase in the beginning fund balance of the Capital Projects fund in 2016, and a decrease in the Water fund beginning balance of the same;
- Increase in the Enterprise Debt Service Reserve fund principal retirement of \$56,667, increase in interest and fiscal charges of \$3,173, decrease in other debt proceeds of \$43,478, and a decrease in transfers out of \$103,318;
- Decrease in Enterprise Debt Service fund transfer in of \$174,816, decrease in other debt proceeds of \$72, decrease in principal retirement of \$170,001, decrease in interest and fiscal charges of \$4,760 and a decrease in transfers out of \$127;
- Increase in Sewer fund principal retirement and transfers in of \$71,371; and

The Village did not record vendor payments made on behalf of the Village by the Ohio Water Development Authority in the amount of \$25,802 resulting in an increase in other debt proceeds and capital outlay disbursements in the Water fund.

**FINDING NUMBER 2016-001
(Continued)**

Charges for Services Errors:

During 2016, the Village made adjustments to the activity of various enterprise funds in error resulting in the following audit adjustments:

- Increase in Water fund charges for services and fund balance of \$4,890; and
- Increase in Sewer fund charges for services and fund balance of \$1,276.

Several monthly utility receipts from the utility department reports were posted twice in the Uniform Accounting Network (UAN) system or were recorded at incorrect amounts resulting in the following adjustments:

- Decrease in Water fund charges for services and fund balance of \$33,275;
- Decrease in Sewer fund charges for services and fund balance of \$117,855; and
- Decrease in Garbage fund charges for services and fund balance of \$21,745.

Income Tax Errors:

During 2016, income tax receipts were incorrectly recorded as intergovernmental receipts in the General fund rather than in the Municipal Income Tax special revenue fund resulting in a decrease to intergovernmental receipts and fund balance in the General fund of \$2,316 and an increase in income tax receipts and fund balance in the Municipal Income Tax fund of \$2,316.

Cash Reconciliation Errors:

During 2016, several adjustments were made to receipts and disbursement activity to verify the cash reconciliation. EFT payments were withdrawn from the bank, but not properly recorded in the UAN system, which resulted in the following adjustments:

- Increase to Water fund personal services disbursements and decrease in fund balance of \$1,259;
- Increase to Sewer fund personal services disbursements and decrease in fund balance of \$1,899; and
- Increase to Pool fund personal services disbursements and decrease in fund balance by \$744.
- A few interest, mobile home property tax, and local government revenue direct deposits were not properly recorded in the General fund, which resulted in an increase to cash fund balance of \$3,953, an increase to earnings on investments of \$27, an increase to property and other local taxes receipts of \$44, and an increase to intergovernmental receipts of \$3,882.
- An IRS payment was incorrectly recorded as a receipt and two utility receipt credits posted in the General fund that were recorded twice resulting in decrease to charges for services receipts of \$769, a decrease to miscellaneous revenue receipts of \$627, and a decrease to cash fund balance of \$1,396.
- Several EFT payments, including one to OPERS, was not recorded in the UAN system which resulted in an increase in general government disbursements and a decrease in cash fund balance in the General fund of \$1,043.

FINDING NUMBER 2016-001
(Continued)

- There were several state highway, gasoline tax, and motor vehicle license tax receipts that were deposited in the bank; however, were not posted to the UAN system. This resulted in an adjustment to increase intergovernmental receipts in the State Highway and the SCMR special revenue funds in the amounts of \$1,463 and \$18,043, respectively, and an increase of the same amounts in cash fund balances.
- An IRS payment and OPERS payment were withdrawn from the bank account but were not properly recorded as a disbursement in the UAN system, which resulted in the following adjustments:
 - Increase in transportation disbursements and a decrease in cash fund balance in the SCMR special revenue fund of \$478;
 - Increase in general government disbursements and a decrease in cash fund balance in the Municipal Income Tax special revenue fund of \$169; and
 - Increase in security of persons' disbursements and a decrease in cash fund balance in the Police Enforcement special revenue fund of \$1,119.

Miscellaneous Errors:

- A special item was misclassified in the General fund in 2016 and 2015, and was reclassified to the miscellaneous receipts line item in the amounts of \$118 and \$2,242, respectively.
- An AEP incentive check was incorrectly classified as a transfer in rather than a miscellaneous receipt in the Capital Projects fund in 2016 in the amount of \$2,313.
- During 2016, a receipt was incorrectly recorded as an extraordinary item in the Water operating fund, rather than a miscellaneous non-operating item in the amount of \$3,261.

In addition, the Village was not properly reporting Mayor's Court activity in the General Fund and the Mayor's Court agency fund. This resulted in the following adjustments:

- In 2016, a decrease in the General fund balance of \$1,637 and a decrease in Fines, Licenses and Permits receipts of \$1,637. For the Mayor's Court agency fund, an increase to Fines Licenses and Permits receipts of \$3,642, an increase to Other disbursements of \$5,757, and a decrease of \$2,115 in the fund balance.
- In 2015, an increase to Fines, Licenses and Permits receipts and Other disbursements of \$4,867.

GASB 54 Errors:

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 errors were noted as a result of the Village not properly implementing GASB statement No 54:

- In both 2016 and 2015, the Village failed to properly classify the General fund in the amount of \$152,559 and \$97,000, respectively, as unassigned fund balances;
- In 2016, the Village failed to properly classify all the Special Revenue funds in the amount of \$373,070 as restricted fund balances;

**FINDING NUMBER 2016-001
(Continued)**

- In both 2016 and 2015, the Village incorrectly classified the Capital Projects funds in the amount of \$291,231 and \$20,000, respectively, as assigned instead of as restricted fund balances; and
- In 2015, a portion of the General Fund balance was incorrectly classified as unassigned. Part of the fund balance had to be reclassified from unassigned to assigned in the amount of \$21,623 to properly reflect 2016 appropriations that exceeded 2016 estimated receipts per GASB 54 guidance.

The adjustments above have been reflected in the audited financial statements. In addition to the adjustments listed above, we also identified additional misstatement of \$5,307 that we have brought to the Village's attention.

Financial statement reporting errors inhibit the users' understanding of the financial position at fiscal yearend and the activity during the year. Procedures and controls should be in place to help prevent and detect errors and provide meaningful information to the users of the Village's financial statements. Prior to submitting the annual compilation to the Auditor of State, the Village's Clerk/Treasurer should review the compilation to identify and correct reporting errors. Resources such as those found on the Auditor of State web site, including the Village Handbook and others pertaining to financial reporting should be utilized when recording financial transactions and reviewing the annual financial statements.

Official's Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-002

MATERIAL WEAKNESS

Bank Reconciliations

The Village completed bank to book reconciliations for each month during 2016 on the Uniform Accounting Network (UAN) accounting system. The Village's monthly bank reconciliations from the period of July 2016 through December 2016 contained multiple long outstanding and unusual reconciling items and errors that were listed as "other adjusting factors" in order to balance each month. These errors per the bank reconciliations accumulated each month ranging in total from a low of \$5,222 in August 2016 to a high of \$54,413 in December 2016. The following errors were identified in the bank reconciliations due to lack of proper procedures in place for reconciling Village bank activity to the accounting records and the lack of proper reviewing and monitoring of financial information:

- Utility and pool receipts were being included as deposits in transit, however, these receipts were deposited daily and therefore, were not in transit;
- Checks were being included on the outstanding checklist; however, they had already cleared the bank;
- EFT payments, such as for payroll withholdings and insurance, were not being recorded properly in the UAN system;
- Utility receipts were deposited daily, but posted in the UAN system monthly. Also, there were two months that were recorded twice in the UAN system;
- Receipts were not always posted in the UAN system the same month that the receipts were collected;
- Bank interest receipts as well as service charges, were not being posted in the UAN system consistently;
- Some income tax receipts were recorded twice in the UAN system; and

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

- There were several issues with the recording and depositing of income tax receipts.

The December 31, 2016 bank reconciliation originally had an unreconciled variance of \$39,235 with the bank being higher. After the above errors were identified, the book balance varied \$12,214 from the bank balance, with the bank being higher.

The above items resulted in inaccurate bank reconciliations and financial information (i.e. UAN financial reports) provided to the Village Council for the months of July 2016 through December 2016. The Village's books have been adjusted to reflect adjustments found. However, the Village has not corrected these issues as of June 2018, and the Village is currently unreconciled resulting in the Village also noting negative fund balances in 2018.

The Village should implement procedures to verify that bank reconciliations are prepared timely, that other adjusting factors are documented on the reconciliation, include all Village checking accounts and that the Village Council, independent of the fiscal officer, review and sign the bank reconciliation each month. Failure to do so may result in inaccurate financial information being presented to the Village Council and possible mishandling of funds, resulting in potential findings for recovery in future audits.

Official's Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-003

MATERIAL WEAKNESS

Income Taxes

The Village levied a municipal tax of one and a half percent for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, capital improvements, and to provide revenue to pay for police, fire and ambulance protection of the municipality. A tax was levied on salaries, wages, commissions, other compensation, and on net profits. Income tax collections were to be allocated between the Income Tax special revenue fund, General fund, and Capital Project fund, as well as the Police Enforcement special revenue fund beginning with the collection of 2013 income taxes. Income tax revenues accounted for 70% and 64% of the total revenue for the years ended December 31, 2016 and 2015, respectively.

The Village maintained income tax returns received by the Village; however, there was no indication on the return of the amount collected or date received. Due to the lack of indication of amounts collected and date received, difficulties were encountered in determining if tax revenues were being properly collected and deposited timely.

Also, the Village does not have a mandatory filing requirement. As a result, the completeness of the income tax revenues due to be collected by the Village was not able to be determined. Sufficient documentation to support the amounts being allocated to the Police Fund during 2016 and 2015 was not available, as the amounts collected did not always indicate if the receipts were for taxes due from years prior to 2013. Of the amounts that were determined to be from 2014 and later, the following adjustments were made to the classifications on the financial statements:

- For 2016, General fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$273,936; the Capital Projects fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$182,624; the Police fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$98,679;

**FINDING NUMBER 2016-003
(Continued)**

- For 2015, General fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$296,322; the Capital Projects fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$197,548; the Police fund receipts were reclassified from Transfers In to Municipal Income Tax receipts in the amount of \$89,370; and
- In order to remove activity from the Income Tax fund based on the above allocations to avoid reporting tax revenue received twice in the financials, the Income Tax fund Municipal Income Tax receipts and Transfers Out line items were decreased for 2016 and 2015 by \$555,239 and \$583,240, respectively.

The following errors were also noted per review of tax returns filed with the Village and review of income tax reports:

- Six out of 37 returns examined in 2016, and 3 out of 33 examined in 2015 did not have enough documentation attached to support the amount due the Village;
- Six out of 37 returns in 2016 and two out of 33 returns in 2015 examined had supporting documentation attached, however, the support did not agree to the information reported on the return;
- One batch deposit in the amount of \$3,294 was correctly posted in the Uniform Accounting Network (UAN) system; however, it could not be determined if it was actually deposited with the bank; and
- Variances were noted between the receipts per the MITS system reports and the receipts posted to the UAN system. In 2016, a variance of \$5,107 was noted with the UAN system being greater. Of this amount, \$3,741 was a receipt recorded twice in the UAN system leaving a variance of \$1,366. For 2015, a variance of \$673 was noted between the MITS system reports and the UAN system with the UAN system being greater.

Also, the Income Tax Administrator had the ability to perform the following duties:

- Receive mail and over the counter money and process it through the cash register;
- Prepare and make the daily deposits with the bank;
- Post transactions in the MITS System as well as in the UAN system;
- Determine who receives a refund and pay out the refunds;
- Send delinquent notices; and
- Determine abatement of penalties and interest.

The failure to maintain complete and accurate income tax forms and accounting system reports could lead to a loss of revenue for the Village, as well as the inability to detect errors and omissions promptly. Also, allowing one individual to perform all of these functions, without supervisory reviews, did not provide for proper segregation of duties and could allow the manipulation of records and misappropriation of assets to occur in the normal course of business without being detected.

The Village should implement and strengthen procedures in relation to income tax accounting system and take into consideration the following:

- Ensure that the Village's personnel have been adequately trained to use any information technology systems;
- Rely on manual application controls (e.g., comparison of system data to non-system data) to assess whether the applications are functioning as intended;
- Obtain software support agreements with their application or hardware system vendor;
- Ensure that operators/users back-up programs on a regular basis and store the back-ups in a secure off-site location;

**FINDING NUMBER 2016-003
(Continued)**

- Maintain supporting documentation to support amounts collected for individual returns;
- Maintain support for calculations of income tax allocations; and
- Segregate duties of the income tax department.

Village Council should develop policies for independent reviews and approval of all adjustments to income tax accounts. Additionally, the Village Income Tax Administrator should review the adopted ordinances related to the 1.5% income tax and the municipal income tax rules and regulations and the contents within. Furthermore, the Village should develop and implement procedures to verify that all the income tax ordinances are followed, and that all required income tax returns are filed. This might include matching applicable street names or area codes from other computer files (such as IRS or State files), making periodic inquiry to major local employers for lists of employees, obtaining notices of utility hookups for new residents, etc. Because of the inadequacies in the Village's accounting records related to income tax revenues in the Income Tax fund, the General fund, the Capital Projects fund, and the Police Enforcement fund we were unable to form an opinion regarding the amount of income tax revenues reported for these funds in the accompanying combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) – all governmental fund types.

Official's Response:

We did not receive a response from Officials to this finding.



Dave Yost • Auditor of State

VILLAGE OF SPENCERVILLE

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
NOVEMBER 15, 2018