



Mary Taylor, CPA
Auditor of State

VILLAGE OF SPENCER
MEDINA COUNTY

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Mary Taylor, CPA
Auditor of State

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Mary Taylor, CPA
Auditor of State

April 29, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Spencer, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702-1509
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2009 and 2008, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Spencer, Medina County, Ohio, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

April 29, 2010

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$39,330	\$76,649		\$115,979
Intergovernmental	23,940	58,932		82,872
Special Assessments		12,563		12,563
Rental and Leases	10,800			10,800
Contributions and Donations	223,139			223,139
Fines, Licenses and Permits	32,478	50		32,528
Earnings on Investments	2,855	260		3,115
Miscellaneous	2,666	329		2,995
Total Cash Receipts	<u>335,208</u>	<u>148,783</u>		<u>483,991</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,162	135,883		144,045
Leisure Time Activities	25,406			25,406
Community Environment	4,933			4,933
Basic Utility Service	458	551		1,009
Transportation		91,474		91,474
General Government	174,636	363		174,999
Capital Outlay	15,986			15,986
Total Cash Disbursements	<u>229,581</u>	<u>228,271</u>		<u>457,852</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>105,627</u>	<u>(79,488)</u>		<u>26,139</u>
Other Financing Receipts/(Disbursements):				
Transfers-In		120,000		120,000
Transfers-Out	(120,000)			(120,000)
Other Financing Uses	(275)			(275)
Total Other Financing Receipts/(Disbursements)	<u>(120,275)</u>	<u>120,000</u>		<u>(275)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(14,648)</u>	<u>40,512</u>		<u>25,864</u>
Fund Cash Balances, January 1	<u>138,251</u>	<u>45,530</u>	<u>\$1,339</u>	<u>185,120</u>
Fund Cash Balances, December 31	<u><u>\$123,603</u></u>	<u><u>\$86,042</u></u>	<u><u>\$1,339</u></u>	<u><u>\$210,984</u></u>

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$355,843
Operating Cash Disbursements:	
Personal Services	81,451
Employee Fringe Benefits	19,324
Contractual Services	107,543
Supplies and Materials	11,592
Other	2,576
	222,486
Total Operating Cash Disbursements	222,486
Operating Income	133,357
Non-Operating Cash Receipts:	
Earnings on Investments	445
Miscellaneous Receipts	8,079
	8,524
Total Non-Operating Cash Receipts	8,524
Non-Operating Cash Disbursements:	
Redemption of Principal	44,809
Interest and Other Fiscal Charges	9,952
	54,761
Total Non-Operating Cash Disbursements	54,761
Net Cash Receipts Over Cash Disbursements	87,120
Fund Cash Balances, January 1	90,148
Fund Cash Balances, December 31	\$177,268

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$38,722	\$84,920		\$123,642
Intergovernmental	27,135	49,630		76,765
Special Assessments		11,935		11,935
Rental and Leases	10,800			10,800
Contributions and Donations	302,500			302,500
Fines, Licenses and Permits	13,637			13,637
Earnings on Investments	4,469	135		4,604
Miscellaneous	7,176	229		7,405
	<u>404,439</u>	<u>146,849</u>		<u>551,288</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,793	154,903		163,696
Leisure Time Activities	30,587			30,587
Community Environment	3,886			3,886
Basic Utility Service	166	166		332
Transportation		130,615		130,615
General Government	100,529	359		100,888
Debt Service:				
Redemption of Principal	39,801			39,801
Interest and Fiscal Charges	1,126			1,126
	<u>184,888</u>	<u>286,043</u>		<u>470,931</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>219,551</u>	<u>(139,194)</u>		<u>80,357</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	17,466	408,605		426,071
Transfers-Out	(432,605)	(17,466)		(450,071)
Other Financing Sources	378			378
Other Financing Uses	(7,487)	(1,939)		(9,426)
	<u>(422,248)</u>	<u>389,200</u>		<u>(33,048)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(202,697)	250,006		47,309
Fund Cash Balances (Deficit) , January 1	<u>340,948</u>	<u>(204,476)</u>	<u>\$1,339</u>	<u>137,811</u>
Fund Cash Balances, December 31	<u>\$138,251</u>	<u>\$45,530</u>	<u>\$1,339</u>	<u>\$185,120</u>

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$303,086
Operating Cash Disbursements:	
Personal Services	80,602
Employee Fringe Benefits	13,261
Contractual Services	119,226
Supplies and Materials	17,975
Other	2,500
	233,564
Total Operating Cash Disbursements	233,564
Operating Income	69,522
Non-Operating Cash Receipts:	
Earnings on Investments	257
Miscellaneous Receipts	397
	654
Total Non-Operating Cash Receipts	654
Non-Operating Cash Disbursements:	
Redemption of Principal	60,558
Interest and Other Fiscal Charges	12,050
Other Non-Operating Cash Disbursements	618
	73,226
Total Non-Operating Cash Disbursements	73,226
Excess of Cash Receipts Under Cash Disbursements Before Interfund Transfers	(3,050)
Transfers-In	24,000
Net Cash Receipts Over Cash Disbursements	20,950
Fund Cash Balances, January 1	69,198
Fund Cash Balances, December 31	\$90,148

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Spencer, Medina County, Ohio, (the Village) as a body corporate and politic. A publicly elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services.

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

B. Accounting Basis

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

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

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

3. Debt Service Funds

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

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

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. The Village 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.

2. Estimated Resources

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

VILLAGE OF SPENCER
MEDINA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

The Village 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:

	<u>2009</u>	<u>2008</u>
Demand deposits	\$371,752	\$258,768
Certificates of deposit	16,500	16,500
Total deposits	<u>\$388,252</u>	<u>\$275,268</u>

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$359,160	\$335,208	(\$23,952)
Special Revenue	296,714	268,783	(27,931)
Enterprise	373,800	364,367	(9,433)
Total	\$1,029,674	\$968,358	(\$61,316)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$462,058	\$349,856	\$112,202
Special Revenue	299,033	228,271	70,762
Enterprise	362,845	277,247	85,598
Total	\$1,123,936	\$855,374	\$268,562

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$794,710	\$422,283	(\$372,427)
Special Revenue	324,692	555,454	230,762
Enterprise	315,641	303,740	(11,901)
Total	\$1,435,043	\$1,281,477	(\$153,566)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$830,787	\$624,980	\$205,807
Special Revenue	362,683	305,448	57,235
Enterprise	374,280	306,790	67,490
Total	\$1,567,750	\$1,237,218	\$330,532

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not encumber all required disbursements.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

4. Property Tax

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

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

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

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

5. Debt

Debt outstanding at December 31, 2009 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$139,529	6.36%
Ohio Public Works Commission Loan CI805	121,163	0.00%
Ohio Public Works Commission Loan CI623	21,666	0.00%
Bank Loan - Truck	5,443	7.50%
Total	<u>\$287,801</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project the Ohio Environmental Protection Agency mandated. The Village borrowed \$298,500 from the OWDA for this project. The loans are being repaid in semiannual installments of \$13,450, with interest, over 15 years of which 7 years remain. The loan is collateralized by sewer receipts. The Village set utility rates at an amount which is sufficient to cover OWDA debt service requirements. The Village's taxing authority collateralized the bonds.

The Ohio Public Works Commission (OPWC) loan CI805 relates to wastewater treatment plant improvements mandated by the Ohio Environmental Protection Agency. The Village borrowed \$403,878 from OPWC for this project. The loans are being repaid in semiannual installments of \$10,097, with no interest, over 20 years of which 7 years remain. The loan is collateralized by water and sewer receipts. The Village set utility rates at an amount which is sufficient to cover OPWC debt service requirements.

The Ohio Public Works Commission (OPWC) loan CI623 relates to wastewater treatment plant improvements mandated by the Ohio Environmental Protection Agency. The OPWC has approved up to \$100,000 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$2,167, with no interest, over 20 years of which 5 years remain. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

5. Debt (Continued)

The Truck Loan relates to the purchase of a pick-up truck to be used by the Village of Spencer Board of Public affairs and paid for from the Water Fund. The Village borrowed a \$13,866 to be repaid in monthly installments of \$278 over 6 years, of which 2 years remain. Interest expense is payable at 7.5% per year.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC Loan CI805	OPWC Loan CI623	Truck Loan
2010	\$26,900	\$20,194	\$4,334	\$3,336
2011	26,900	20,194	4,334	2,491
2012	26,900	20,194	4,334	
2013	26,900	20,194	4,334	
2014	26,900	20,194	4,330	
2015-16	40,350	20,193		
Total	<u>\$174,850</u>	<u>\$121,163</u>	<u>\$21,666</u>	<u>\$5,827</u>

6. Contributions and Donations – (J.B. Firestone Civic Trust)

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

During 2009 and 2008, \$223,139 and \$302,500 was received from the J.B. Firestone Civic Trust and is reflected on the financial statements as Contributions and Donations revenue in the General Fund.

7. Retirement Systems

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OP&F participants contributed 10 percent of their wages. For 2009 and 2008, the Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages and 24 percent of full-time fire fighters' wages, respectively. For 2009 and 2008, OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Spencer, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated April 29, 2010, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2009-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 29, 2010.

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

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



Mary Taylor, CPA
Auditor of State

April 29, 2010

VILLAGE OF SPENCER
MEDINA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

FINDING NUMBER 2009-001

Material Noncompliance:

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

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

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

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

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

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

FINDING NUMBER 2009-001 (continued)

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

The Village should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Village incurring a commitment, and only when the requirements of 5705.41(D) are satisfied. The Village should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: The Village management is aware of these issues and will work to correct them.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Accounting Errors and Omissions: Various receipt and disbursement posting errors were identified.	No	Partially corrected; similar comment repeated in the management letter.
2007-002	Cash Reconciliations: Cash reconciliations from January through November 2006 included unsupported reconciling items.	Yes	Finding no longer valid.
2007-003	Ohio Rev. Code Section 5704.41(D): 45.3 percent of tested expenditures were not certified by the Fiscal Officer prior to incurring the obligation.	No	Not corrected; repeated as Finding 2009-001.
2007-004	Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16: Certain material transfers and advances were not properly authorized. Adjustments were made to the financial statements.	Yes	Finding no longer valid.



Mary Taylor, CPA
Auditor of State

VILLAGE OF SPENCER

MEDINA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 1, 2010**