



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

SPENCER TOWNSHIP
LUCAS COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Spencer Township
Lucas County
630 North Mielke Road
P.O. Box 28
Holland, Ohio 43528-0028

To the Board of Trustees:

We have audited the accompanying financial statements of Spencer Township (the Township) as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2002 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Spencer Township
Lucas County
Report of Independent Accountants
Page 2

This report is intended solely for the information and use of management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

Jim Petro
Auditor of State

July 29, 2002

**SPENCER TOWNSHIP
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$85,773	\$80,210	\$165,983
Intergovernmental	112,582	74,691	187,273
Licenses, Permits, and Fees	7,536		7,536
Earnings on Investments	8,155	1,413	9,568
Other Revenue	7,607		7,607
	<u>221,653</u>	<u>156,314</u>	<u>377,967</u>
Total Cash Receipts			
	<u>221,653</u>	<u>156,314</u>	<u>377,967</u>
Cash Disbursements:			
Current:			
General Government	442,363	1,216	443,579
Public Safety		63,791	63,791
Public Works	56,598	80,902	137,500
Health	6,615		6,615
Capital Outlay	54,085	113,909	167,994
	<u>559,661</u>	<u>259,818</u>	<u>819,479</u>
Total Cash Disbursements			
	<u>559,661</u>	<u>259,818</u>	<u>819,479</u>
Total Disbursements Over Receipts	<u>(338,008)</u>	<u>(103,504)</u>	<u>(441,512)</u>
Other Financing Receipts:			
Other Sources		92	92
		<u>92</u>	<u>92</u>
Excess of Cash Disbursements Over Cash Receipts and Other Financing Receipts	<u>(338,008)</u>	<u>(103,412)</u>	<u>(441,420)</u>
Fund Cash Balances, January 1	<u>403,359</u>	<u>184,619</u>	<u>587,978</u>
Fund Cash Balances, December 31	<u>\$65,351</u>	<u>\$81,207</u>	<u>\$146,558</u>
Reserve for Encumbrances, December 31			
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

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

**SPENCER TOWNSHIP
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$70,271	\$87,484	\$157,755
Intergovernmental	57,630	80,031	137,661
Licenses, Permits, and Fees	7,906		7,906
Earnings on Investments	17,780	2,587	20,367
Other Revenue	2,254	411	2,665
	<u>155,841</u>	<u>170,513</u>	<u>326,354</u>
Total Cash Receipts			
	<u>155,841</u>	<u>170,513</u>	<u>326,354</u>
Cash Disbursements:			
Current:			
General Government	145,481		145,481
Public Safety		172,915	172,915
Public Works	2,060	77,064	79,124
Health	6,538		6,538
Capital Outlay	25,403	151,477	176,880
	<u>179,482</u>	<u>401,456</u>	<u>580,938</u>
Total Cash Disbursements			
	<u>179,482</u>	<u>401,456</u>	<u>580,938</u>
Total Disbursements Over Receipts	<u>(23,641)</u>	<u>(230,943)</u>	<u>(254,584)</u>
Other Financing Receipts and (Disbursements):			
Advances-In		20,000	20,000
Advances-Out	(20,000)		(20,000)
Other Sources	250,700	204,002	454,702
Other Uses	(1,014)		(1,014)
	<u>229,686</u>	<u>224,002</u>	<u>453,688</u>
Total Other Financing Receipts/(Disbursements)			
	<u>229,686</u>	<u>224,002</u>	<u>453,688</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	206,045	(6,941)	199,104
Fund Cash Balances, January 1	<u>197,314</u>	<u>191,560</u>	<u>388,874</u>
Fund Cash Balances, December 31	<u><u>\$403,359</u></u>	<u><u>\$184,619</u></u>	<u><u>\$587,978</u></u>
Reserve for Encumbrances, December 31	<u><u>\$16,000</u></u>	<u><u>\$16,000</u></u>	<u><u>\$16,000</u></u>

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

**SPENCER TOWNSHIP
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Spencer Township (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road maintenance, fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Investments

Repurchase agreements are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Fire Fund – This fund receives proceeds from the fire levy for maintenance and operation of the Township Fire Department.

**SPENCER TOWNSHIP
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2001</u>	<u>2000</u>
Overnight repurchase agreement	<u>\$146,558</u>	<u>\$587,978</u>

Investments: Investments subject to repurchase agreements are held by the Township's financial institution but are not in the Township's name. The Township's financial institution maintains records identifying the Township as the owner of these securities.

**SPENCER TOWNSHIP
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$156,350	\$221,653	\$65,303
Special Revenue	197,800	156,406	(41,394)
Total	\$354,150	\$378,059	\$23,909

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$575,709	\$559,661	\$16,048
Special Revenue	382,419	259,818	122,601
Total	\$958,128	\$819,479	\$138,649

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$129,768	\$406,541	\$276,773
Special Revenue	179,000	374,515	195,515
Total	\$308,768	\$781,056	\$472,288

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$345,861	\$196,496	\$149,365
Special Revenue	350,481	401,456	(50,975)
Total	\$696,342	\$597,952	\$98,390

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following Special Revenue funds: Fire District by \$80,913 and the Permissive Motor Vehicle License by \$10,228 for the year ended December 31, 2000.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. 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. The second half payment is due the following June 20.

**SPENCER TOWNSHIP
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

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 Township.

5. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank Loan-Fire Station	\$185,185	6.75%
Bank Loan-Town Hall and Maintenance Building	231,547	6.60%
Bank Loan-Truck	9,758	8.99%
Total	<u>\$426,490</u>	

In 2000, the Township entered into two, ten-year note agreements with Fifth Third Bank to finance the renovation of the Township's fire station, renovation of the Township's administrative offices, and construction of a new maintenance building. Also, in 2000, the Township entered into a standard loan agreement with Fifth Third Bank for the purchase of a new truck to be used for Township maintenance.

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

Year ending December 31:	Bank Loan	Bank Loan	Bank Loan
	<u>Fire Station</u>	<u>Town Hall and Maintenance Building</u>	<u>Truck Purchase</u>
2002	\$28,345	\$34,500	\$6,683
2003	28,345	34,500	3,817
2004	28,345	34,500	
2005	28,345	34,500	
2006	28,345	34,500	
2007 – 2010	103,553	135,931	
Total	<u>\$245,278</u>	<u>\$308,431</u>	<u>\$10,500</u>

6. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Township has paid all contributions required through December 31, 2001.

**SPENCER TOWNSHIP
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

7. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>
<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Spencer Township
Lucas County
630 North Mielke Road
P.O. Box 28
Holland, Ohio 43528-0028

To the Board of Trustees:

We have audited the accompanying financial statements of Spencer Township (the Township) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated July 29, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-40148-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated July 29, 2002.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated July 29, 2002.

Spencer Township
Lucas County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end.

Jim Petro
Auditor of State

July 29, 2002

**SPENCER TOWNSHIP
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-40148-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making expenditure unless it has been appropriated. As described in Note 3 to the financial statements, two of the Township's Special Revenue Funds had expenditures in excess of appropriations, as follows:

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund	Appropriation Authority	Budgetary Expenditures	Variance
Fire District	\$239,251	\$320,164	(\$80,913)
Permissive MVL		10,228	(10,228)

Monitoring budget versus actual expenditures is an important tool of the budget process. Expenditures exceeding authorized levels of spending may ultimately lead to deficit balances within the funds. We recommend the Township monitor the budget versus actual expenditures.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Facsimile 614-466-4490

SPENCER TOWNSHIP

LUCAS 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
OCTOBER 1, 2002**