



**Auditor of State
Betty Montgomery**

VILLAGE OF SPENCER
MEDINA COUNTY

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Auditor of State Betty Montgomery

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, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

The Village's financial transactions were processed using 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 that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Village 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 of the Village as of December 31, 2003 and 2002, 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 October 29, 2004 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 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 audit.

This report is intended solely for the information and use of management, Village Council 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 29, 2004

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Local Taxes	\$35,192	\$31,505		\$66,697
Intergovernmental	41,748	42,445		84,193
Special Assessments		13,925		13,925
Fines, Licenses and Permits	3,809	2,688		6,497
Earnings on Investments	302	239		541
Miscellaneous	281,854			281,854
	<u>362,905</u>	<u>90,802</u>		<u>453,707</u>
Total Cash Receipts				
	<u>362,905</u>	<u>90,802</u>		<u>453,707</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	134,789	39,734		174,523
Leisure Time Activities	45,330			45,330
Community Environment	92			92
Basic Utility Services	2,881			2,881
Transportation	59,179	23,949		83,128
General Government	394,198	851		395,049
	<u>636,469</u>	<u>64,534</u>		<u>701,003</u>
Total Cash Disbursements				
	<u>636,469</u>	<u>64,534</u>		<u>701,003</u>
Total Cash Receipts Over/(Under)				
Cash Disbursements	<u>(273,564)</u>	<u>26,268</u>		<u>(247,296)</u>
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds	150,000			150,000
Transfers-In	31,108			31,108
Transfers-Out		(31,108)		(31,108)
Advances-In	4,773	4,773		
Advances-Out	(4,773)	(4,773)		
Other Financing Sources	5,626	1,050		6,676
	<u>186,734</u>	<u>(30,058)</u>		<u>156,676</u>
Total Other Financing Receipts/(Disbursements)				
	<u>186,734</u>	<u>(30,058)</u>		<u>156,676</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	(86,830)	(3,790)		(90,620)
Fund Cash Balances, January 1	<u>41,608</u>	<u>59,103</u>	<u>\$1,339</u>	<u>102,050</u>
Fund Cash Balances, December 31	<u>(\$45,222)</u>	<u>\$55,313</u>	<u>\$1,339</u>	<u>\$11,430</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 - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$238,234
Operating Cash Disbursements:	
Personal Services	64,974
Fringe Benefits	17,979
Contractual Services	35,634
Supplies and Materials	70,478
Other Operating Cash Disbursements	<u>50,847</u>
Total Operating Cash Disbursements	<u>239,912</u>
Operating (Loss)	<u>(1,678)</u>
Non-Operating Cash Receipts:	
Other Financing Sources	5,363
Non-Operating Cash Disbursements:	
Interest and Other Fiscal Charges	<u>84,607</u>
Net Cash Receipts (Under)	
Excess of Receipts (Under) Disbursements	(80,922)
Fund Cash Balances, January 1	<u>230,735</u>
Fund Cash Balances, December 31	<u><u>\$149,813</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 - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Local Taxes	\$28,869	\$28,237		\$57,106
Intergovernmental	28,018	132,270		160,288
Special Assessments		13,862		13,862
Licenses, Permits, and Fees	6,668	1,429		8,097
Earnings on Investments	770	104		874
Miscellaneous	354,129			354,129
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	418,454	175,902		594,356
Cash Disbursements:				
Current:				
Security of Persons and Property	103,117	55,765		158,882
Leisure Time Activities		60,302		60,302
Community Environment	138			138
Basic Utility Services	2,635			2,635
Transportation	96,362	26,688		123,050
General Government	260,559			260,559
Capital Outlay		19,002		19,002
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	462,811	161,757		624,568
Total Cash Receipts (Under) Cash Disbursements	(44,357)	14,145		(30,212)
Other Financing Receipts/(Disbursements):				
Other Financing Sources	3,249			3,249
Other Financing Uses		(112)		(112)
Advances-In	60,302	60,302		
Advances-Out	(60,302)	(60,302)		
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	3,249	(112)		3,137
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(41,108)	14,033		(27,075)
Fund Cash Balances, January 1	82,716	45,070	\$1,339	129,125
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$41,608</u>	<u>\$59,103</u>	<u>\$1,339</u>	<u>\$102,050</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 - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$244,067
Operating Cash Disbursements:	
Personal Services	63,293
Fringe Benefits	11,884
Contractual Services	10,542
Supplies and Materials	48,966
Other Operating Cash Disbursements	<u>12,751</u>
Total Operating Cash Disbursements	<u>147,436</u>
Operating Income	<u>96,631</u>
Non-Operating Cash Disbursements:	
Interest and Other Fiscal Charges	25,713
Excess of Cash Receipts Over Cash Disbursements	<u>70,918</u>
Fund Cash Balances January 1	<u>159,817</u>
Fund Cash Balances, December 31	<u><u>\$230,735</u></u>

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, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Spencer, Medina County, (the Village) 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 Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services.

The Village's management believes these financial statements present all activities for which the Village 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. Cash 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 or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued 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 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 Fund

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 Village has the following significant Special Revenue Funds:

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (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.

COPS Grant Fund – This fund receives grant monies for the purpose of funding the Village police department.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following significant debt service fund:

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

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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 Council must annually approve the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when 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 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay 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 leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment 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:

	2003	2002
Demand deposits	\$144,743	\$316,285
Certificates of deposit	16,500	16,500
Total deposits	\$161,243	\$332,785

Deposits: Deposits are either 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, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$413,325	\$549,639	\$136,314
Special Revenue	171,910	91,852	(80,058)
Enterprise	231,500	243,597	12,097
Total	\$816,735	\$885,088	\$68,353

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$459,254	\$641,242	(\$181,988)
Special Revenue	124,747	90,869	33,878
Debt Service	1,339	0	1,339
Enterprise	470,470	324,519	145,951
Total	\$1,055,810	\$1,056,630	(\$820)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$415,648	\$421,703	\$6,055
Special Revenue	73,250	175,902	102,652
Enterprise	238,500	244,067	5,567
Total	\$727,398	\$841,672	\$114,274

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$498,362	\$523,113	(\$24,751)
Special Revenue	118,317	101,567	16,750
Debt Service	1,339	0	1,339
Enterprise	398,314	173,149	225,165
Total	\$1,016,332	\$797,829	\$218,503

Contrary to Ohio Rev. Code Section 5705.41 (D), the Village did not certify the availability of funds for certain expenditures during 2003 and 2002.

Contrary to Ohio Rev. Code Section 5705.41 (B), the Village expended more money than was appropriated.

Contrary to Ohio Rev. Code Section 5705.28, the Village failed to adopt a tax budget for 2003 and 2002.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio Rev. Code Section 5705.34, the Village did not certify the necessary tax levies to the County Auditor for 2003 and 2002.

Contrary to Ohio Rev. Code Section 5705.10, the Village ran a deficit fund balance in the General Fund, indicating that monies were used for purposes other than which they were intended.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates 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 payments, the first half is due December 31. The second half payment is due the following June 20.

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, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$83,301	0.00%
Ohio Public Works Commission Loan C1805	262,520	0.00%
Ohio Public Works Commission Loan C1623	51,997	0.00%
Mortgage Revenue Bonds	92,000	5.00%
Bank Loan - Maintenance Building	<u>150,000</u>	4.25%
Total	<u><u>\$639,818</u></u>	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The Village borrowed \$298,500 from the OWDA for this project. The loans are being repaid in semiannual installments of \$26,900, with no interest, over 10 years. 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 Ohio Public Works Commission (OPWC) loan C1805 relates to wastewater treatment plant improvements mandated by the Ohio Environmental Protection Agency. The Village borrowed \$403,878 from the OPWC for this project. The loans are being repaid in semiannual installments of \$10,097, with no interest, over 20 years. 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.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. DEBT (Continued)

The Ohio Public Works Commission (OPWC) loan C1623 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 installment of \$2,167, with no interest, over 20 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Mortgage Revenue Bonds relate to the construction of a municipal sewer system for the Village. The Village borrowed a total of \$293,000 to be repaid in annual varying installments over 37 years. The Mortgage Revenue Bonds are collateralized by the Village's water and sewer receipts.

The bank loan from Farmers Savings Bank relates to the construction of a Village Maintenance Building. The Village borrowed a total of \$150,000 to be repaid in annual installments of \$30,000 over 5 years at an interest rate of 4.25%.

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

	OWDA Loan	OPWC Loan C1805	OPWC Loan C1623	Mortgage Revenue Bonds	Maintenance Building Loan
Year ending December 31:					
2004	\$26,900	\$20,194	\$4,333	\$38,450	\$35,917
2005	26,900	20,194	4,333	18,100	35,917
2006	26,900	20,194	4,333	17,350	35,917
2007	2,600	20,194	4,333	16,600	35,917
2008		20,194	4,333	17,850	35,917
2009 - 2013		100,970	21,665		
2014 - 2018		50,484	6,500		
Total	\$83,300	\$252,424	\$49,830	\$108,350	\$179,585

6. 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. These plans provide 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. For 2003 and 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance and dental coverage to full-time employees through a private carrier

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, 2003 and 2002, and have issued our report thereon dated October 29, 2004, wherein we noted that the Village's financial transactions were processed using 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 conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-005. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated October 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Finding as item 2003-006.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider item 2003-006 listed above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 29, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 29, 2004

VILLAGE OF SPENCER
MEDINA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same 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. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000 (\$3,000 as of April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful.

In 2003, 13 out of 35, and in 2002, 9 out of 37 of expenditures tested (37% and 24%, respectively) were not certified by the Clerk/Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in noncompliance. The Village should certify the availability of funds prior to incurring the obligation for expenditures. The Village should also implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41. A similar comment was made in the 2001-2000 audit.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code Section 5705.28 requires the Village Council as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Village Council did not adopt an annual tax budget for 2003 or 2002. To avoid jeopardizing its share of local government monies, the Village should adopt a tax budget on or before July 15 of each year. A similar comment was made in the prior audit.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

Ohio Admin. Code Section 117-9-02 provides that the legal level of control is the level (e.g. fund, program or function, department, object level) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the Village Council appropriates, and must meet or exceed the level prescribed by section 5705.38 of the Ohio Revised Code.

Council adopted appropriations by fund and so established the legal level of control at that level. During 2003 and 2002, disbursements plus outstanding encumbrances exceeded appropriations at December 31, 2003 and December 31, 2002, within the following funds:

FY 2003		Total		
<u>Fund</u>	<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General	1000	\$155,500	\$303,222	(\$147,722)
FY 2002				
COPS Fast	2121	7,661	21,961	(14,300)

The Clerk/Treasurer should frequently compare actual disbursements, plus outstanding encumbrances to appropriations at the legal level of control. If Council feels budgetary control should not extend to the object level for all accounts, it should consider adopting appropriations at a higher level but no higher than provided for in Ohio Rev. Code Section 5705.38. A similar comment was made in the 2001-2000 audit.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 5705.34 requires the Village to pass a resolution authorizing the necessary tax levies and to certify the levies to the County Auditor before October 1 in each year, unless a later date is approved by the tax commissioner.

The Village did not pass resolutions authorizing the necessary tax levies and did not certify the levies to the County Auditor for 2003 and 2002. As a result of the late filings, the Village's collection of tax levy revenues for the 2003 and 2002 fiscal years could have been jeopardized. The Village should ensure the necessary tax levies are formally approved and certified to the County Auditor timely. This will help ensure that monies generated from the Village's tax levies can be collected and available for the Village.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that money paid into a fund be used only for the purposes for which the fund was established. Negative fund balances indicate that monies from one fund were used to cover expenses of another fund. During 2003, the General Fund had a negative fund balance in the amount of \$45,222, indicating that restricted monies were used to pay for the Village's general operating expenses. The inability of management to detect the fund deficit is a direct result of monthly bank reconciliations not being performed, and the exclusion of revenue and expenditure transactions from the Village's financial records.

FINDING NUMBER 2003-005 (Continued)

We recommend the Clerk-Treasurer closely monitor fund balances, revenues and expenses to ensure that deficit fund balances do not arise from spending more than what is available in each individual fund. We also recommend that monthly bank reconciliations be performed, and that all transactions be recorded in the Village's financial records. If it becomes apparent that expenditures will exceed revenue, Village Council should take action to reduce spending or increase revenues to avoid deficit fund balances.

FINDING NUMBER 2003-006

Reportable Condition

Cash Procedures

We noted the following conditions in the cash procedures of the Village that caused errors in the accounting records:

- The monthly cash reconciliations contained unsupported reconciling items ranging in amounts from \$240 to over \$53,000. In addition the bank reconciliation did not account for all outstanding deposits or outstanding checks, and also included checks as outstanding which had cleared the bank. These unsupported reconciling items and errors in the reconciliation indicate the Village did not reconcile their records to the bank for the two year period January 1, 2002 through December 31, 2003.
- The Village currently carries checks on their reconciliation that have been outstanding for more than 4 years.
- During fiscal years 2003 and 2002, the Water Bills checking account was not reconciled to the Utility Deposit Fund, resulting in a variance of \$4,512 which cannot be allocated to individual customers.
- The Clerk/Treasurer wrote numerous manual checks during the audit period. Some of these manual checks were not entered into the accounting system, resulting in the inability of the Village to reconcile the books to the bank. In addition, the Village failed to ensure that check numbers recorded in the accounting system matched the number on the physical check, resulting in numerous checks clearing the bank with check numbers and amounts that did not match the check numbers and amounts recorded by the Village.
- The Village failed to record various receipts in their accounting records.

We recommend the following procedures to prevent and detect errors in the accounting records in a timely manner and to promote increased controls and accountability:

- Reconciling items should be specifically identified and resolved, and forcing the books to reconcile should be avoided. A monthly bank to book reconciliation should be performed at the end of each month to help ensure the accuracy of the financial records. The Clerk/Treasurer should check the cash and investment balances as listed on the system to the actual bank statements and individual investment balances as confirmed by the bank. This will detect any errors in the investment balances on the UAN system.

FINDING NUMBER 2003-006 (Continued)

- After six months outstanding checks should be voided, and if a liability is still valid, a new check should be issued. If the liability is no longer valid, the money should be returned to the fund from which it was paid. If the payee cannot be located, the amount of the check should be transferred to an "Unclaimed Funds" account per MAS Bulletin 91-11. After a period of five years, if unclaimed, the funds should be paid to the General Fund and recorded as "miscellaneous revenue in the General Fund". If after the five year period, the owner claims the unpaid money, a check will be paid from the General Fund.
- The Village should review the Utility Deposits Fund to determine which customer accounts comprise \$4,512. Should the Village be unable to determine which customer deposits comprise the amount; the \$4,512 should be transferred into the Unclaimed Monies account. The Village should then follow the statutory disbursement procedures for Unclaimed Monies. Monthly bank to book reconciliations for the Utility Deposit account should be performed in a timely manner to ensure the bank balance agrees to the fund balance. This will allow the Village to more closely monitor the activity in these accounts and help ensure errors or irregularities are detected in a timely manner.
- The Clerk/Treasurer should not write manual checks or issue checks outside of the system, due to the inherent problems it may cause when reconciling the Village's records and the increased possibility of human error.

**VILLAGE OF SPENCER
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-30952-001	Ohio Rev. Code Section 5705.41(D) – Certification of available resources for expenditures	No	Not Corrected – See Finding Number 2003-001



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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
DECEMBER 7, 2004**