

VILLAGE OF SPENCER
MEDINA COUNTY, OHIO

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014



Dave Yost • Auditor of State

Village Council
Village of Spencer
109 North Main Street
Spencer, Ohio 44275

We have reviewed the *Independent Auditor's Report* of the Village of Spencer, Medina County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2014 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Spencer is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 21, 2016

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**VILLAGE OF SPENCER
MEDINA COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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Charles E. Harris & Associates, Inc.
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INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Spencer, Medina County, (the Village) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2015 and 2014, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Spencer, Medina County, as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
June 27, 2016

**VILLAGE OF SPENCER
MEDINA COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts				
Property and Other Local Taxes	\$ 30,660	\$ 69,540	\$ -	\$ 100,200
Intergovernmental	21,731	65,497	-	87,228
Fines, Licenses and Permits	11,807	60	-	11,867
Earnings on Investments	1,314	46	-	1,360
Contributions and Donations	300,000	-	-	300,000
Miscellaneous	19,013	6,339	-	25,352
<i>Total Cash Receipts</i>	<u>384,525</u>	<u>141,482</u>	<u>-</u>	<u>526,007</u>
Cash Disbursements				
Current:				
Security of Persons and Property	9,752	194,350	-	204,102
Leisure Time Activities	23,506	-	-	23,506
Community Environment	1,294	-	-	1,294
Basic Utility Services	572	572	-	1,144
Transportation	28,205	92,154	-	120,359
General Government	134,103	958	-	135,061
<i>Total Cash Disbursements</i>	<u>197,432</u>	<u>288,034</u>	<u>-</u>	<u>485,466</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	187,093	(146,552)	-	40,541
Other Financing Receipts (Disbursements)				
Transfers In	-	120,000	-	120,000
Transfers Out	(120,000)	-	-	(120,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(120,000)</u>	<u>120,000</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	67,093	(26,552)	-	40,541
<i>Fund Cash Balances, January 1</i>	<u>137,477</u>	<u>121,627</u>	<u>1,339</u>	<u>260,443</u>
Fund Cash Balances, December 31				
Restricted	-	95,075	1,339	96,414
Assigned	379	-	-	379
Unassigned	204,191	-	-	204,191
<i>Fund Cash Balances, December 31</i>	<u>\$ 204,570</u>	<u>\$ 95,075</u>	<u>\$ 1,339</u>	<u>\$ 300,984</u>

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Proprietary Fund Type Enterprise
Operating Cash Receipts	
Charges for Services	\$ 347,387
<i>Total Operating Cash Receipts</i>	347,387
Operating Cash Disbursements	
Personal Services	78,772
Fringe Benefits	14,471
Contractual Services	167,049
Supplies and Materials	5,748
Other	2,909
<i>Total Operating Cash Disbursements</i>	268,949
<i>Operating Income (Loss)</i>	78,438
Non-Operating Receipts (Disbursements)	
Earnings on Investments	86
Principal Retirement	(60,607)
Interest and Other Fiscal Charges	(9,901)
<i>Total Non-Operating Receipts (Disbursements)</i>	(70,422)
<i>Net Income (Loss)</i>	8,016
<i>Fund Cash Balances, January 1</i>	633,832
<i>Fund Cash Balances, December 31</i>	\$ 641,848

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

**VILLAGE OF SPENCER
MEDINA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts				
Property and Other Local Taxes	\$ 31,232	\$ 70,111	\$ -	\$ 101,343
Intergovernmental	22,646	62,507	-	85,153
Fines, Licenses and Permits	12,535	123	-	12,658
Earnings on Investments	1,461	64	-	1,525
Contributions and Donations	300,000	-	-	300,000
Miscellaneous	19,631	4,000	-	23,631
<i>Total Cash Receipts</i>	<u>387,505</u>	<u>136,805</u>	<u>-</u>	<u>524,310</u>
Cash Disbursements				
Current:				
Security of Persons and Property	18,364	180,602	-	198,966
Leisure Time Activities	33,794	-	-	33,794
Community Environment	2,771	-	-	2,771
Basic Utility Services	524	524	-	1,048
Transportation	-	73,758	-	73,758
General Government	470,462	645	-	471,107
<i>Total Cash Disbursements</i>	<u>525,915</u>	<u>255,529</u>	<u>-</u>	<u>781,444</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(138,410)	(118,724)	-	(257,134)
Other Financing Receipts (Disbursements)				
Transfers In	-	140,000	-	140,000
Transfers Out	(140,000)	-	-	(140,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(140,000)</u>	<u>140,000</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	(278,410)	21,276	-	(257,134)
<i>Fund Cash Balances, January 1</i>	<u>415,887</u>	<u>100,351</u>	<u>1,339</u>	<u>517,577</u>
Fund Cash Balances, December 31				
Restricted	-	121,627	1,339	122,966
Assigned	401	-	-	401
Unassigned	137,076	-	-	137,076
<i>Fund Cash Balances, December 31</i>	<u>\$ 137,477</u>	<u>\$ 121,627</u>	<u>\$ 1,339</u>	<u>\$ 260,443</u>

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

VILLAGE OF SPENCER
MEDINA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Proprietary Fund Type Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$ 354,816
<i>Total Operating Cash Receipts</i>	354,816
Operating Cash Disbursements	
Personal Services	77,018
Fringe Benefits	13,908
Contractual Services	123,846
Supplies and Materials	6,514
Other	6,763
<i>Total Operating Cash Disbursements</i>	228,049
<i>Operating Income (Loss)</i>	126,767
Non-Operating Receipts (Disbursements)	
Earnings on Investments	88
OWDA Debt Proceeds	101,539
Miscellaneous Receipts	569
Capital Outlay	(69,162)
Principal Retirement	(66,945)
Interest and Other Fiscal Charges	(11,939)
<i>Total Non-Operating Receipts (Disbursements)</i>	(45,850)
<i>Net Income (Loss)</i>	80,917
<i>Fund Cash Balances, January 1</i>	552,915
<i>Fund Cash Balances, December 31</i>	\$ 633,832

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

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014**

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, (the Village) as a body corporate and politic. A publicly-elected six member Council governs the Village. The Village provides general governmental services such as 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 permitted by the financial reporting provisions of the Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The 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 for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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.

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

1. Summary of Significant Accounting Policies (continued)

D. Fund Accounting (continued)

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

General Obligation Debt Service Fund – This fund is used to repay 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 (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 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 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 individual commitments are made. Encumbrances outstanding at year end are carried forward to the subsequent year.

A summary of 2015 and 2014 budgetary activity appears in Note 3.

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

1. Summary of Significant Accounting Policies (continued)

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. 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.

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

1. Summary of Significant Accounting Policies (continued)

H. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

The 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:

	2015	2014
Demand deposits	\$ 926,332	\$ 877,775
Certificates of deposit	16,500	16,500
Total deposits	\$ 942,832	\$ 894,275

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 380,148	\$ 384,525	\$ 4,377
Special Revenue	306,104	261,482	(44,622)
Enterprise	417,430	347,473	(69,957)

2015 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 426,726	\$ 317,811	\$ 108,915
Special Revenue	363,358	288,629	74,729
Enterprise	459,207	339,768	119,439

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 427,124	\$ 387,505	\$ (39,619)
Special Revenue	321,326	276,805	(44,521)
Enterprise	427,130	457,012	29,882

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

3. Budgetary Activity (continued)

2014 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 722,923	\$ 666,316	\$ 56,607
Special Revenue	331,259	256,074	75,185
Enterprise	520,475	376,407	144,068

4. Property Taxes

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

Medina 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, 2015 was as follows:

	Principal	Interest Rate
OPWC Loans	\$ 10,097	0.00%
OWDA Loans	394,983	2.00 - 3.30%
Total	\$ 405,080	

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 1 year remains. 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 Water Development Authority (OWDA) loan #6189 relates to a new water tank mandated by the Ohio Environmental Protection Agency. The OWDA approved up to \$432,787 in loans to the Village for this project. The Village will repay the loans in semiannual installments from user charges. No amortization schedule is currently available for this loan.

The OWDA loan #7062 relates to an aeration tank replacement project. The OWDA approved up to \$464,483 in loans to the Village for this project. The Village will repay the loans in semiannual installments from user charges. No amortization schedule is currently available for this loan.

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

5. Debt (continued)

Amortization of the above debt is scheduled as follows:

Year ending Dec 31:	OPWC
	Principal
2016	\$ 10,097

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 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 2015 and 2014, \$300,000 was received each year 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 full-time police officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other 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.

From January 1 to June 30, 2014, OP&F participants contributed 10.75% of covered payroll, from July 1, 2014 to July 1, 2015, OP&F participants contributed 11.50% of covered payroll and from July 1, 2015 to December 31, 2015 OP&F participants contributed 12.25%. For 2015 and 2014, the Village contributed to OP&F an amount equal to 19.50% of full-time police members' wages. For 2015 and 2014, OPERS members contributed 10% of their covered payroll and the Village contributed an amount equaling 14% of participants' covered payroll. The Village has paid all contributions required through December 31, 2015.

8. Risk Management

The Village has obtained commercial insurance for the following risks:

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

There have been no settlements paid in excess of insurance coverage nor has insurance coverage been significantly reduced in the past three years.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

The Village also provides health insurance, life, dental and vision coverage to all full-time employees.

**Village of Spencer
Medina County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)**

9. Contingent Liabilities

The Village may be a defendant in various lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

10. Transfers

During 2014 and 2015, the Village made one transfer each year pursuant to the recommendation of the advisory committee of the J.B. Firestone Civic Trust fund to subsidize operations and to provide for expenditures. All transfers were approved in accordance with Ohio Revised Code sections 5705.14, 5705.15, and 5705.16.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Spencer, Medina County (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated June 27, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

Compliance and Other Matters

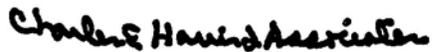
As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Finding

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.

Purpose of this Report

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



Charles E. Harris and Associates, Inc.
June 27, 2016

**VILLAGE OF SPENCER
MEDINA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2015-001 – Material Weakness

Audit Adjustments and Reclassifications

During audit procedures performed, errors were noted in the Village’s financial statements that required audit adjustments and reclassifications as follows:

- During 2014, Homestead and Rollback revenue was incorrectly posted as Property and Other Taxes revenue instead of Intergovernmental revenue.
- During 2015 and 2014, tower lease revenue was misclassified as Other Financing Sources instead of Miscellaneous revenue.
- During 2014, posting of OWDA Debt Proceeds paid directly to vendors was not recorded by the Village. This caused the total OWDA Debt Proceeds revenue and Capital Outlay expense in the Enterprise funds to be understated. Other OWDA Debt Proceeds were misclassified as Miscellaneous Receipts and were reclassified.
- During 2015 and 2014, the Village misclassified the Firestone Trust fund as special revenue with a restricted fund balance instead of general with an unassigned fund balance.
- During 2015 and 2014, the Village misclassified the MCDAC – Grant fund as fiduciary with an unrestricted fund balance instead of special revenue with a restricted balance.

The accompanying financial statements and the Village’s records have been adjusted to properly reflect these transactions.

Sound financial reporting is the responsibility of the Village and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the Village adopt policies and procedures to identify and correct errors and omissions in a timely manner. Management can use the UAN Handbook, the Village Officer’s Handbook and other Auditor of State guidance to aid in properly identifying account classifications and fund balance classifications.

Official’s Response:

During 2014 the Homestead and Rollback was indeed incorrectly posted to Property taxes and not to Intergovernmental. This was an error on the part of management, and management is aware that is where it is to be posted. Management will work to make sure this does not happen again in the future. Cell tower revenue will be recorded as Misc. Revenue from this day forward. Further, from this day forward, posting of any debt proceeds will be receipted in as such and paid out as Capital Outlay when there is grant money or other financing sources used for Capital Improvements. Management will change the classification of the Firestone Trust to general fund with an unassigned fund balance instead of special revenue with a restricted fund balance. Management will reclassify the MCDAC fund as special revenue instead with a restricted balance instead of as a fiduciary fund with unrestricted fund balance.



Dave Yost • 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
AUGUST 2, 2016**