

VILLAGE OF SPENCERVILLE

AUDIT REPORT

For the Years Ended December 31, 2001 and 2002

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



**Auditor of State
Betty Montgomery**

Mayor and Members of Village Council
Village of Spencerville
116 S. Broadway Street
Spencerville, Ohio 45887-1267

We have reviewed the Independent Auditor's Report of the Village of Spencerville, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2001 to December 31, 2002. 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 Spencerville is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 8, 2003

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VILLAGE OF SPENCERVILLE
Audit Report
For the years ended December 31, 2001 and 2002

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VILLAGE OF SPENCERVILLE
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ELECTED OFFICIALS

<u>ELECTED OFFICIAL</u>	<u>TITLE</u>	<u>TERM OF OFFICE</u>	<u>SURETY</u>
Lynn D. Cummins	Mayor	1/1/00 - 12/31/03	(A)
Edward Barnett	Council- President	11/1/98 - 12/31/01 1/01/01 - 12/31/05	
Brian Ringwald	Council	1/24/00 - 12/31/03	
Mary Zimmerman	Council	1/01/98 - 12/31/01 1/01/01 - 12/31/05	
Anna B. Kennedy	Council	1/01/00 - 12/31/03	
Melville Fryer resigned 7/02/02	Council	1/01/98 - 12/31/01 Replaced by	
Todd Kill	Council	8/05/02 - 12/31/05	
Charles Daley	Council	11/1/99 - 12/31/01	
Mark Bowsher	Council	1/01/02 - 12/31/05	
Dawn Bailey	Clerk-Treasurer	4/1/00 - 3/31/04	(B)

(A) Auto-Owners Insurance Co. in the amount of \$2,500

(B) Auto-Owners Insurance Co. in the amount of \$40,000

Law Director

Marie Von der Embse
558 West Spring Street
Lima, Ohio 45801

VILLAGE OF SPENCERVILLE
AUDIT REPORT
For the years ended December 31, 2001 and 2002

ADMINISTRATIVE OFFICIALS

<u>APPOINTED OFFICIALS</u>	<u>TITLE</u>	<u>TERM OF OFFICE</u>
Sean Chapman	Village Administrator	Continuous
Harold Zinsmeister	Police Chief	Continuous

VILLAGE OF SPENCERVILLE
AUDIT REPORT
For the years ended December 31, 2001 and 2002

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Types:
General Fund

Special Revenue Fund Types:
Street Construction, Maintenance and Repair Fund
Street Highway Improvement Fund
Permissive Motor Vehicle License Tax Fund

Debt Service Funds:
General Obligation Bond Retirement Fund
Special Assessment Debt Fund

Capital Projects Fund:
Capital Projects Fund

PROPRIETARY FUND TYPES:

Enterprise Funds:
Water Operating Fund
Sewer Operating Fund
Recreation Fund
Garbage Fund
Enterprise Improvement Construction Fund
First Mortgage Debt Service Fund
Debt Service Reserve Fund

FIDUCIARY FUND TYPES:

Agency Funds:
Income Tax Fund
Mayor's Court Fund

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

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members
of Village Council
Village of Spencerville
Spencerville, Ohio

We have audited the accompanying financial statements of the Village of Spencerville (the Village), as of and for the years ended December 31, 2001 and 2002, as listed in the table of contents. 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 Controller 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed 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 cash, investments and fund cash balances of the Village, as of December 31, 2001 and 2002, and the combined receipts, disbursements, and changes in fund cash balances, its combined statement of receipts-budget and actual and combined statement of disbursements and encumbrances compared with expenditure authority for the year then ended in conformity with the basis of accounting referred to above.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 7, 2003 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, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
August 7, 2003

VILLAGE OF SPENCERVILLE
ALLEN COUNTY
 COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND
 CASH BALANCES - ALL FUND TYPES
 AS OF DECEMBER 31, 2001

Cash and Cash Equivalents	\$	654,071
Investments		<u>450,000</u>
 Total		 <u>\$ 1,104,071</u>

CASH BALANCES BY FUND CLASS

Governmental Funds:		
General	\$	78,311
Special Revenue		20,724
Debt Service		640
Capital Projects		<u>243,241</u>
 Total Governmental Funds		 342,916
 Proprietary Funds:		
Enterprise Funds		<u>664,021</u>
 Total Enterprise Funds		 664,021
 Fiduciary Funds:		
Agency Funds		<u>97,134</u>
 Total Fiduciary Funds		 <u>97,134</u>
 Total		 <u>\$ 1,104,071</u>

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

VILLAGE OF SPENCERVILLE
ALLEN COUNTY
COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND
CASH BALANCES - ALL FUND TYPES
December 31, 2002

Cash and Cash Equivalents	\$	709,283
Investments		<u>550,000</u>
 Total		 <u><u>\$ 1,259,283</u></u>

CASH BALANCES BY FUND CLASS

Governmental Funds:		
General	\$	10,211
Special Revenue		25,568
Debt Service		2,721
Capital Projects		<u>316,647</u>
 Total Governmental Funds		 355,147
 Proprietary Funds:		
Enterprise Funds		<u>805,987</u>
 Total Enterprise Funds		 805,987
 Fiduciary Funds:		
Agency Funds		<u>98,149</u>
 Total Fiduciary Funds		 <u>98,149</u>
 Total		 <u><u>\$ 1,259,283</u></u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

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

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<i>Receipts:</i>					
Local Taxes	\$ 68,117	\$ 30,901	-	-	\$ 99,018
Intergovernmental	169,433	59,089	-	\$ 173,128	401,650
Special Assessments	-	-	\$ 2,430	-	2,430
Charges for Services	11,671	-	-	-	11,671
Fines, Licenses, and Permits	13,118	-	-	-	13,118
Interest	29,395	862	-	-	30,257
Miscellaneous	5,119	-	-	-	5,119
Total Receipts	296,853	90,852	2,430	173,128	563,263
<i>Disbursements:</i>					
Security of Persons & Property	271,504	-	-	-	271,504
Public Health Services	5,537	-	-	-	5,537
Leisure Time Activities	11,032	-	-	-	11,032
Community Environment	14,311	-	-	-	14,311
Basic Utility Services	5,094	-	-	25,235	30,329
Transportation	9,826	94,433	-	-	104,259
General Government	257,099	-	-	-	257,099
Capital Outlay	33,755	-	-	283,961	317,716
Debt Service:					
Principal	-	-	3,000	35,000	38,000
Interest	-	-	445	41,570	42,015
Total Disbursements	608,158	94,433	3,445	385,766	1,091,802
Total Receipts Over/ (Under) Disbursements	(311,305)	(3,581)	(1,015)	(212,638)	(528,539)
<i>Other Financing Sources/(Uses):</i>					
Transfers-In	212,456	-	1,500	141,637	355,593
Transfers-Out	(16,000)	-	-	-	(16,000)
Total Other Financing Sources/(Uses)	196,456	-	1,500	141,637	339,593
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	(114,849)	(3,581)	485	(71,001)	(188,946)
Fund Balance, January 1, 2001	193,160	24,305	155	314,242	531,862
Fund Balance, December 31, 2001	<u>\$ 78,311</u>	<u>\$ 20,724</u>	<u>\$ 640</u>	<u>\$ 243,241</u>	<u>\$ 342,916</u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES -
ALL PROPRIETARY FUNDS AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Agency	Total (Memorandum Only)
Receipts:			
Local Taxes	-	\$ 465,062	\$ 465,062
Charges for Services	\$ 850,709	-	850,709
Fines, License, and Permits	-	13,118	13,118
Interest	13,820	-	13,820
Total Receipts	864,529	478,180	877,647
Disbursements:			
Personal Services	169,763	7,915	177,678
Employee Fringe Benefits	52,495	1,081	53,576
Contractual Services	212,523	-	212,523
Materials and Supplies	136,483	1,061	137,544
Capital Outlay	20,355	-	20,355
Miscellaneous	31,181	16,896	48,077
Debt Service:			
Principal	86,185	-	86,185
Interest	94,800	-	94,800
Total Disbursements	803,785	26,953	830,738
Excess of Receipts Over (Under) Disbursements	60,744	451,227	511,971
Nonoperating Receipts (Disbursements):			
Operating Transfer In	14,500	-	14,500
Operating Transfer Out	-	(354,093)	(354,093)
Total Nonoperating Receipts (Disbursements)	14,500	(354,093)	(339,593)
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	75,244	97,134	172,378
Fund Balance, January 1, 2001	588,777	-	588,777
Fund Balance, December 31, 2001	\$ 664,021	\$ 97,134	\$ 761,155

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES -
ALL GOVERNMENT FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<i>Receipts:</i>					
Local Taxes	\$ 59,340	\$ 38,194	-	-	\$ 97,534
Intergovernmental	159,411	54,101	-	\$ 28,419	241,931
Special Assessments	-	-	\$ 2,081	-	2,081
Charges for Services	12,920	-	-	-	12,920
Fines, Licenses, and Permits	13,996	-	-	-	13,996
Interest	15,309	473	-	-	15,782
Miscellaneous	4,553	-	-	27,789	32,342
Total Receipts	265,529	92,768	2,081	56,208	416,586
<i>Disbursements:</i>					
Security of Persons & Property	358,755	-	-	-	358,755
Public Health Services	9,105	-	-	-	9,105
Leisure Time Activities	11,319	-	-	-	11,319
Community Environment	13,005	-	-	-	13,005
Basic Utility Services	-	-	-	4,676	4,676
Transportation	9,758	87,924	-	-	97,682
General Government	178,005	-	-	-	178,005
Capital Outlay	22,040	-	-	92,651	114,691
Debt Service:					
Principal	-	-	-	35,000	35,000
Interest	-	-	-	40,047	40,047
Total Disbursements	601,987	87,924	-	172,374	862,285
Total Receipts Over/ (Under) Disbursements	(336,458)	4,844	2,081	(116,166)	(445,699)
<i>Other Financing Sources/(Uses):</i>					
Transfers-In	284,358	-	-	189,572	473,930
Transfers-Out	(16,000)	-	-	-	(16,000)
Total Other Financing Sources/(Uses)	268,358	-	-	189,572	457,930
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	(68,100)	4,844	2,081	73,406	12,231
Fund Balance, January 1, 2002	78,311	20,724	640	243,241	342,916
Fund Balance, December 31, 2002	<u>\$ 10,211</u>	<u>\$ 25,568</u>	<u>\$ 2,721</u>	<u>\$ 316,647</u>	<u>\$ 355,147</u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES -
ALL PROPRIETARY FUNDS AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Total (Memorandum Only)
Receipts:			
Local Taxes	-	\$ 493,229	\$ 493,229
Intergovernmental	\$ 4,689	-	4,689
Charges for Services	917,841	-	917,841
Interest	2,608	-	2,608
Miscellaneous	187	-	187
	925,325	493,229	925,325
Total Receipts			
Disbursements:			
Personal Services	193,395	8,155	201,550
Employee Fringe Benefits	56,475	1,216	57,691
Contractual Services	209,886	-	209,886
Materials and Supplies	133,714	971	134,685
Capital Outlay	16,245	-	16,245
Miscellaneous	29,964	7,942	37,906
Debt Service:			
Principal	83,685	-	83,685
Interest	75,995	-	75,995
	799,359	18,284	817,643
Total Disbursements			
Excess of Receipts Over (Under) Disbursements	125,966	474,945	600,911
Nonoperating Receipts (Disbursements):			
Operating Transfer In	16,000	-	16,000
Operating Transfer Out	-	(473,930)	(473,930)
	16,000	(473,930)	(457,930)
Total Nonoperating Receipts (Disbursements)			
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	141,966	1,015	142,981
Fund Balance, January 1, 2002	664,021	97,134	761,155
Fund Balance, December 31, 2002	\$ 805,987	\$ 98,149	\$ 904,136

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

VILLAGE OF SPENCERVILLE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 505,253	\$ 509,309	\$ 4,056
Special Revenue	83,850	90,852	7,002
Debt Service	3,930	3,930	0
Capital Projects	319,650	314,765	(4,885)
Proprietary:			
Enterprise	918,536	879,029	(39,507)
Fiduciary:			
Agency Funds	<u>463,750</u>	<u>478,180</u>	<u>14,430</u>
Total (Memorandum Only)	<u>\$ 2,294,969</u>	<u>\$ 2,276,065</u>	<u>\$ (18,904)</u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Fund Types/Funds</u>	<u>2001 Appropriations</u>	<u>Actual 2001 Disbursements</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 684,676	\$ 624,158	\$ 60,518
Special Revenue	103,702	94,433	9,269
Debt Service	3,445	3,445	0
Capital Projects	608,242	385,766	222,476
Proprietary:			
Enterprise	1,259,464	803,785	455,679
Fiduciary:			
Agency Funds	<u>418,601</u>	<u>381,046</u>	<u>37,555</u>
Total (Memorandum Only)	<u>\$ 3,078,130</u>	<u>\$ 2,292,633</u>	<u>\$ 785,497</u>

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

VILLAGE OF SPENCERVILLE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 473,963	\$ 549,887	\$ 75,924
Special Revenue	82,957	92,768	9,811
Debt Service	1,200	2,081	881
Capital Projects	208,419	245,780	37,361
Proprietary:			
Enterprise	1,043,046	941,325	(101,721)
Fiduciary:			
Agency Funds	<u>480,000</u>	<u>493,229</u>	<u>13,229</u>
Total (Memorandum Only)	<u>\$ 2,289,585</u>	<u>\$ 2,325,070</u>	<u>\$ 35,485</u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Fund Types/Funds</u>	<u>2002 Appropriations</u>	<u>Actual 2002 Disbursements</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 622,656	\$ 617,987	\$ 4,669
Special Revenue	101,280	87,924	13,356
Debt Service	-	-	0
Capital Projects	299,919	172,374	127,545
Proprietary:			
Enterprise	1,140,011	799,359	340,652
Fiduciary:			
Agency Funds	<u>492,915</u>	<u>492,214</u>	<u>701</u>
Total (Memorandum Only)	<u>\$ 2,656,781</u>	<u>\$ 2,169,858</u>	<u>\$ 486,923</u>

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials have the ability to exercise direct operating control.

B. REPORTING ENTITY

In evaluating how to define the Village for financial reporting purposes, management has considered all agencies, departments and organizations making up the Village of Spencerville (the primary government) and its potential component units consistent with Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." There were no significant changes in the reporting entity related to the implementation of this statement for the current audit period.

Component units are legally separate organizations for which the Village, as the primary government, is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and 1) the Village is able to significantly influence the programs or services performed or provided by the organization; or 2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Village is obligated for the debt of the organization. Component units may also include organizations for which the Village approves the budget, the issuance of debt, or the levying of taxes.

Based on the above definitions, the Village has determined that there are no component units required to be included in the financial statements.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

C. **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 by the Auditor of State.

D. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchase investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received. See Note 5 for further description.

E. **FUND ACCOUNTING**

The Village maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund

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

Special Revenue Funds

To account for the proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

E. **FUND ACCOUNTING** - (continued)

Governmental Fund Types: - (continued)

Debt Service Funds:

These funds are used to accumulate resources for the payment of bonds and note indebtedness.

Capital Project Funds:

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

Proprietary Fund Types:

Enterprise Funds:

To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Fiduciary Fund Types:

Agency Funds

To account for custodial funds held by the Village acting as an agent for another government, organization, individual or fund.

F. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by Council, and submitted to the county auditor, as secretary of the county budget commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

F. **BUDGETARY PROCESS** – (continued)

2. **Estimated Resources**

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village clerk/treasurer by September 1.

Prior to December 31, the Village must revise the budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the clerk/treasurer sends the county auditor a certificate, which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate and submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or decreases in revenue are identified by the clerk/treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificates issued during 2001 and 2002.

Budget receipts, as shown in the accompanying financial statements do not include the unencumbered fund balances as of January 1, 2002. However, those fund balances are available for appropriation.

3. **Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The legal level of budgetary control is at the function level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

F. **BUDGETARY PROCESS** – (continued)

4. **Encumbrances**

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated. In the budgetary financial statements, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

G. **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.

H. **UNPAID VACATION AND SICK LEAVE**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment (upon retirement with 10 years or more of service). Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

I. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statement are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. **PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2002.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

2. PROPERTY TAX – (continued)

The full tax rate applied to real property for the fiscal years ended December 31, 2001 and 2002 was \$4.00 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.05 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.05 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002 was \$4.00 per \$1,000 of assessed valuation.

The following represents the assessed property values for the revenues received during the years 2001 and 2002.

	<u>2000</u>	<u>2001</u>
Real Property		
Residential/Agricultural	\$15,144,920	\$ 15,324,490
Commercial/Industrial	3,832,090	3,815,380
Utilities	1,410	1,470
Tangible Personal Property		
Personal Property	3,731,940	3,093,860
Public Utilities	<u>1,006,170</u>	<u>786,970</u>
Total Valuation	<u>\$23,716,530</u>	<u>\$23,022,170</u>

The Allen County Treasurer collects property tax on behalf of all taxing districts within the county. The Allen County Auditor periodically remits to the taxing districts their portions of the taxes collected.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

3. LOCAL INCOME TAX

This locally levied tax of 1.25 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to net income of business organizations conducted within the Village. Tax receipts are credited the Income Tax Agency Fund and then after expenses (salaries, supplies and materials, and refunds) the balance is to be transferred, by Ordinance, 60% to the General Fund and 40% to the Capital Project Fund. For the years 2002 and 2001, \$284,358 and \$212,456 were credited to the General Fund and \$189,572 and \$141,637 were credited to the Capital Projects Fund.

4. RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During 2001 and 2002 the Village contracted with one insurance company for coverage of buildings, contents and public officials liability; and one company for law enforcement liability.

The following is a list of insurance coverage of the Village and the deductibles associated with each:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Personal Service Insurance Co.	General Liability	\$ 6,689,286	\$ 250
	Employee Benefits Liability		
	Medical Claims		
	Exceeding \$100,000	1,000,000	
	Employers Liability and		
	Stop Gap	1,000,000	
	Fire Damage Liability	25,000	
	Commercial Auto	6,000,000	
	Uninsured Motorist	6,000,000	
	Comprehensive	Actual Cost	250
	Collision	Actual Cost	250
Inland Marine	Various	250	
Public Officials Liability	500,000	500	
National Casualty Company	Law Enforcement Liability	500,000	2,500

Settled Claims have not exceeded this commercial coverage in any of the last five years. There have been no significant reductions in insurance coverage from last year.

Separate bonds with higher covered limits cover specific employees of the Village, who collect money, and Reliable Plumbing, who collects utilities bills.

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

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

5. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments, and Fund Cash Balances - All Fund Types, December 31, 2001 and 2002".

Legal Requirements

State statutes classify monies held by the Village into three categories.

"Active deposits" are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Village Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

"Inactive deposits" are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

"Interim deposits" are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligations guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities, subject to the repurchase agreements, must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

5. EQUITY IN POOLED CASH AND INVESTMENTS - (continued)

Legal Requirements - (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in the is division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Village, and be purchased within the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk/Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No.3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits

At year-end, the carrying amount of the Village's deposits was \$1,104,071 in 2001 and \$1,259,284 in 2002 and the bank balance was \$1,108,164 in 2001 and \$1,262,717 in 2002. Of the bank balances:

1. \$300,000 was covered by federal depository insurance in 2001 and \$300,000 was covered in 2002; and
2. \$808,164 in 2001 and \$962,717 of the balance was uninsured, but collateralized by securities pooled by the depository not in the Village's name. As with all deposits, there is a risk of loss of resources, but management believes this collateral gives the Village its safest deposit of money.

**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

5. **EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (continued)**

Investments

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or by its trust department but not in the Village's name. However, the Village had no investments categorized under GASB 3 for the years ended December 31, 2001 and 2002.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and classifications of deposits and investments presented above per GASB Statement No. 3 for 2001 and 2002 is shown below.

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

5. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (continued)

<u>2001</u>	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 654,071	\$ 450,000
Investments:		
Certificates of Deposit over 90 days	<u>450,000</u>	<u>(450,000)</u>
GASB Statement 3	\$ <u>1,104,071</u>	\$ <u>-</u>
<u>2002</u>	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 709,283	\$ 550,000
Investments:		
Certificates of Deposit over 90 days	<u>550,000</u>	<u>(550,000)</u>
GASB Statement 3	\$ <u>1,259,284</u>	\$ <u>-</u>

6. DEBT OBLIGATIONS

The changes in the Village's debt during fiscal year 2001 were as follows:

	<u>Balance Outstanding 12/31/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Outstanding 12/31/01</u>
OPWC Rehab Sanitary Sewer Loan – 0%	\$ 117,517	\$ - 0 -	\$ (6,185)	\$ 111,332
1998 General Obligation Sewer Improvement Bonds – 4% - 5.5%	830,000	- 0 -	(35,000)	795,000
1998 First Mortgage Sewer System Revenue Bonds – 4% - 5.5%	1,801,250	- 0 -	(80,000)	1,721,250
1982 Broadway Street Curbs and Sidewalk Special Assessment Bonds – 13.25%	<u>3,000</u>	<u>- 0 -</u>	<u>(3,000)</u>	<u>- 0 -</u>
Total 2001	<u>\$2,751,767</u>	<u>\$ - 0 -</u>	<u>\$(124,195)</u>	<u>\$ 2,627,582</u>

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

6. DEBT OBLIGATIONS - (continued)

The changes in the Village's debt during fiscal year 2002 were as follows:

	<u>Balance Outstanding 12/31/01</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Outstanding 12/31/02</u>
OPWC Rehab Sanitary Sewer Loan – 0%	\$ 111,332	\$ - 0 -	\$ (6,185)	\$ 105,147
1998 General Obligation Sewer Improvement Bonds – 4% - 5.5%	795,000	- 0 -	(35,000)	760,000
1998 First Mortgage Sewer System Revenue Bonds – 4% - 5.5%	<u>1,721,250</u>	<u>- 0 -</u>	<u>(77,500)</u>	<u>1,643,750</u>
Total 2002	<u>\$ 2,627,582</u>	<u>\$ - 0 -</u>	<u>\$(118,685)</u>	<u>\$ 2,508,897</u>

The Ohio Public Works Commission Loan was used for rehabilitations of the Village's sanitary sewer system. The non-interest bearing loan is to be paid back over twenty years in forty semi-annual payments of \$3,092.56 due January 1, and July 1 of each year starting July 1, 2002 and ending January 1, 2020. Since the payments are due January 1 of each year, the Village makes these payments in December of the previous year. The loan will be paid from user charges in the Sewer Fund.

The First Mortgage Sewer System Revenue Bonds were used to improve the Village's sewer system. The bonds were dated April 1, 1998 and will mature commencing April 1, 2001 and each year thereafter through April 1, 2016. Interest will be payable October 1 and April 1 of each year, commencing October 1, 1998 at varying rates and amounts through April 1, 2016. Bonds maturing on or after April 1, 2009 are callable on or after April 1, 2008, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, at the option of the Village, at the following percentages of the principal amount redeemed, plus accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

Sewer receipts collateralize the Bonds, and the Village has agreed to set utility rates sufficient to cover sewer system debt service requirements.

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

6. DEBT OBLIGATIONS - (continued)

The General Obligation Bonds are supported by the full faith and credit of the Village and will be paid from income tax revenue in the Capital Project Fund. The bonds were used to cover the cost of improving the Village's sewer system. The bonds were dated April 1, 1998 and will mature commencing April 1, 2001 and each year thereafter through April 1, 2016. Interest will be payable October 1 and April 1 of each year, commencing October 1, 1998 at varying rates and amounts through April 1, 2016. Bonds maturing on or after April 1, 2009 are callable on or after April 1, 2008, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, at the option of the Village, at the following percentages of the principal amount redeemed, plus accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

<u>Year Ended</u>	<u>O.P.W.C. Loans</u>	<u>Mortgage Revenue Bonds</u>	<u>General Obligation Bonds</u>	<u>Yearly Totals</u>
2003	\$ 6,185	\$ 174,245	\$ 78,378	\$ 258,808
2004	6,185	175,175	76,557	257,917
2004	6,185	175,780	79,580	261,545
2006	6,185	176,050	77,443	259,678
2007	6,185	171,100	75,260	252,545
2008- 2012	30,926	866,660	382,470	1,280,056
2013- 2017	30,926	692,240	306,196	1,029,362
2018- 2019	<u>12,370</u>	<u>-</u>	<u>-</u>	<u>12,370</u>
Total	<u>\$105,147</u>	<u>\$2,431,250</u>	<u>\$1,075,884</u>	<u>\$3,612,281</u>

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

7. DEFINED BENEFIT PENSION PLANS

Either the Ohio Public Employees Retirement System or the Ohio Police and Fire Pension Fund cover the employees of the Village of Spencerville. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

A. Ohio Public Employee Retirement System (OPERS)

The Ohio Public Employees Retirement System is a cost-sharing multiple-employer administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. For local government employer units the rate was 13.55% of covered payroll. The contribution rates are determined actuarially. The Village's contributions for pension obligations to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$45,330, \$39,809 and \$29,236, respectively. The full amount has been contributed for 2001 and 2000. 83% has been contributed for 2002.

B. Ohio Police and Fire Pension Fund (OP&F)

The Village of Spencerville contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Police are required to contribute 10% of their annual covered salary to fund pension obligations, while the Village is required to contribute 19.5% for police officers. The Village does not have any full-time firefighters. The Village's contributions to the OP&F for the years ending December 31, 2002, 2001, and 2000 were \$23,680, \$22,887, and \$22,029, respectively. The full amount has been contributed for 2001 and 2000. 73% has been contributed for 2002.

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Public Employees Retirement System of Ohio (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio Service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The 2002 employer contribution rate for local employers was 13.55% of covered payroll; 5% was the portion that was used to fund health care.

Benefits are advance-funded on an actuarially determined basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively. As of December 31, 2001, (the latest information available), \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB. At December 31, 2001, the total number of benefit recipients eligible for OPEB through OPERS was 402,041.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

The Village's actual contribution for 2002 that were used to fund post-retirement benefits was \$16,727.

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

B. Ohio Police and Fire Pension Fund (OP&F)

OP&F provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The Ohio Revised Code also provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.5% and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, Since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The numbers of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available) are 13,174 for Police and 10,239 for Firefighters.

The Village's actual contributions for 2002 which were used to fund post-employment benefits were \$9,411.

OP&F's total health care expense for the year ending December 31, 2001 (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699.

9. DEBT SERVICE TRUSTEED FUNDS

The First Mortgage Sewer System Revenue Bond trust agreement requires monthly payments (proportionate to one-twelfth of the annual principal payment and one-sixth of the semi-annual interest payment) to be held in trust in a "Sewer System Bond Account" to be invested in direct obligations of the United States of America, maturing or redeemable by the holder not later than the times and to the extent such moneys are required for the purpose of bond principal and interest payments. Monies accumulated in this trust account (expensed from the books of the Village as monthly payments) at December 31, 2002 amounted to \$42,432.

VILLAGE OF SPENCERVILLE
Allen County
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

10. CONTINGENCIES

The Village of Spencerville is a party to legal proceedings seeking damages or injunctive relief incidental to its operations and pending projects. The Village management is of the opinion that ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Village.

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

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members
of Village Council
Village of Spencerville
Spencerville, Ohio

We have audited the financial statements of the Village of Spencerville as and for the years ended December 31, 2001 and 2002, and have issued our report thereon dated August 7, 2003. We conducted our audit in accordance with auditing standards 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated August 7, 2003.

Internal Controls 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. 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 other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated August 7, 2003.

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

Charles E. Harris & Associates, Inc.
August 7, 2003

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 1999 and 2000, did not include material citations and recommendations.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
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Facsimile 614-466-4490

VILLAGE OF SPENCERVILLE

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 6, 2003**