



Dave Yost • Auditor of State



**SPENCER TOWNSHIP  
LUCAS COUNTY  
DECEMBER 31, 2017 AND 2016**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

### ***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 Spencer Township, Lucas County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016.

### ***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 Township'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 Township's internal control. Accordingly, we express no such 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 2 of the financial statements, the Township 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 Township 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 Township as of December 31, 2017 and 2016, and the respective changes in financial position 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 cash balances, receipts and disbursements by fund type, and related notes of Spencer Township, Lucas County, Ohio as of December 31, 2017 and 2016, 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 2.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 28, 2018

**Spencer Township***Lucas County**Combined Statement of Receipts, Disbursements  
and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2017*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$83,245	\$84,803		\$168,048
Charges for Services		8,612		8,612
Licenses, Permits and Fees	5,741	88		5,829
Intergovernmental	1,232,905	110,011		1,342,916
Miscellaneous	13,620			13,620
<i>Total Cash Receipts</i>	<u>1,335,511</u>	<u>203,514</u>		<u>1,539,025</u>
<b>Cash Disbursements</b>				
Current:				
General Government	198,192	2,634		200,826
Public Safety		16,787		16,787
Public Works	155,750	42,300		198,050
Conservation-Recreation	13,279			13,279
Capital Outlay	294,720	15,174		309,894
<i>Total Cash Disbursements</i>	<u>661,941</u>	<u>76,895</u>		<u>738,836</u>
<i>Excess of Receipts Over Disbursements</i>	<u>673,570</u>	<u>126,619</u>		<u>800,189</u>
<b>Other Financing Receipts</b>				
Sale of Capital Assets			\$6,000	6,000
<i>Net Change in Fund Cash Balances</i>	673,570	126,619	6,000	806,189
<i>Fund Cash Balances, January 1</i>	<u>1,339,769</u>	<u>243,286</u>		<u>1,583,055</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		369,905	6,000	375,905
Assigned	760,592			760,592
Unassigned	1,252,747			1,252,747
<i>Fund Cash Balances, December 31</i>	<u>\$2,013,339</u>	<u>\$369,905</u>	<u>\$6,000</u>	<u>\$2,389,244</u>

*See accompanying notes to the basic financial statements*

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Spencer Township, Lucas County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance. The Township contracts with Springfield Township to provide fire services and ambulance services. The Township's police protection is provided by the Lucas County Sheriff's Department.

***Public Entity Risk Pool and Joint Economic Development Zone***

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool and a joint economic development zone agreement with the Village of Whitehouse. Notes 7 and 10 to the financial statements provides additional information for these entities. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

***Fund Accounting***

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

***Gas Tax Fund*** The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

***Fire District Fund*** The fire district fund accounts for and reports property tax money restricted for fire services and ambulance services.

***Capital Project Fund*** This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Project Fund:



**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

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***Miscellaneous Capital Projects Fund*** The miscellaneous capital projects fund accounts for and reports the sale of capital assets restricted for the acquisition or construction of capital facilities, other capital assets, and capital improvements.

***Basis of Accounting***

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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.

***Budgetary Process***

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

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

***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 approve estimated resources.

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

A summary of 2017 budgetary activity appears in Note 4.

***Capital Assets***

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

***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.

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

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***Fund Balance***

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

***Nonspendable*** The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

***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.

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

***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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

***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 Township 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.

**Note 3 – Compliance**

Contrary to Ohio law, appropriations exceeded estimated resources in the Fire District fund and Permissive Motor Vehicle License Tax fund by \$48,150 and \$26,500 respectively for the year ended December 31, 2017.

Contrary to Ohio law, proceeds from the sale of a permanent improvement were incorrectly recorded in the Fire District fund rather than in separate Capital Projects fund for the purchase of permanent improvements.

Contrary to Ohio law, \$182,238 of the Township's bank balance was uncollateralized at year end.

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

**Note 4 – Budgetary Activity**

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$949,000	\$1,335,511	\$386,511
Special Revenue	186,100	203,514	17,414
Capital Projects		6,000	6,000
Total	\$1,135,100	\$1,545,025	\$409,925

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$969,759	\$662,658	\$307,101
Special Revenue	342,350	77,055	265,295
Total	\$1,312,109	\$739,713	\$572,396

**Note 5 – Deposits**

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

	2017
Demand deposits	\$2,389,244

***Deposits***

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

At December 31, 2017, \$182,238 of Township's bank balance of \$2,393,974 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

**Note 6 – Property Taxes**

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

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

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

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

**Note 7 – Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017.

	<b>2017</b>
Assets	\$40,010,732
Liabilities	8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

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included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township's share of these unpaid claims collectible in future years is approximately \$7,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<b>2017 Contributions to OTARMA</b>
\$15,575

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

**Note 9 – Postemployment Benefits**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017.

**Note 10 – Joint Economic Development Zone**

The Joint Economic Development Zone (JEDZ) is comprised of Spencer Township and the Village of Whitehouse. The purpose of this JEDZ is to facilitate planned, orderly, new or expanded commercial and industrial growth within the region; creating, retaining and enhancing employment opportunities for the benefit of Whitehouse and Spencer, and their residents, and all of the residents of the region.

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*  
*(Continued)*

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The Zone operates under an appointed 6 member board, and levies an income tax of 1.5 percent. The tax proceeds are split between the Township and the Village. The Township receives 75 percent of the proceeds.

The Village of Whitehouse agrees as consideration for this JEDZ contract with the Board to administer, collect, and enforce the income tax on behalf of the JEDZ. The 2017 revenue to the township was \$1,178,420.

**Spencer Township**

Lucas County

Combined Statement of Receipts, Disbursements  
and Changes in Fund Balances (Regulatory Cash Basis)

All Governmental Fund Types

For the Year Ended December 31, 2016

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$72,757	\$149,633	\$222,390
Charges for Services		82,266	82,266
Licenses, Permits and Fees	13,647		13,647
Intergovernmental	1,276,868	199,666	1,476,534
Earnings on Investments	4		4
Miscellaneous	997	6,144	7,141
<i>Total Cash Receipts</i>	<u>1,364,273</u>	<u>437,709</u>	<u>1,801,982</u>
<b>Cash Disbursements</b>			
Current:			
General Government	193,916	78,305	272,221
Public Safety		205,050	205,050
Public Works	157,449	72,493	229,942
Conservation-Recreation	38,432		38,432
Capital Outlay	372,306	24,872	397,178
Debt Service:			
Principal Retirement		2,551	2,551
Interest and Fiscal Charges		16	16
<i>Total Cash Disbursements</i>	<u>762,103</u>	<u>383,287</u>	<u>1,145,390</u>
<i>Excess of Receipts Over Disbursements</i>	<u>602,170</u>	<u>54,422</u>	<u>656,592</u>
<b>Other Financing Receipts (Disbursements)</b>			
Transfers In		25,200	25,200
Transfers Out	(25,200)		(25,200)
Advances In	60,000	60,000	120,000
Advances Out	(60,000)	(60,000)	(120,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(25,200)</u>	<u>25,200</u>	
<i>Net Change in Fund Cash Balances</i>	576,970	79,622	656,592
<i>Fund Cash Balances, January 1</i>	<u>762,799</u>	<u>163,664</u>	<u>926,463</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		243,286	243,286
Unassigned	1,339,769		1,339,769
<i>Fund Cash Balances, December 31</i>	<u>\$1,339,769</u>	<u>\$243,286</u>	<u>\$1,583,055</u>

See accompanying notes to the basic financial statements

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Spencer Township, Lucas County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance. The Township discontinued fire protection services at the end of June 2016, and contracts with Springfield Township to provide fire services and ambulance services. The Township’s police protection is provided by the Lucas County Sherriff’s Department.

***Public Entity Risk Pool and Joint Economic Development Zone***

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool and a joint economic development zone agreement with the Village of Whitehouse. Notes 7 and 10 to the financial statements provides additional information for these entities. The Township’s management believes these financial statements present all activities for which the Township is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The Township’s financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

***Fund Accounting***

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

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***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

***Gas Tax Fund*** The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

***Fire District Fund*** The fire district fund accounts for and reports property tax money restricted for fire services and ambulance services.



**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

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***Basis of Accounting***

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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.

***Budgetary Process***

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

***Appropriations*** Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

***Encumbrances*** The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year.

A summary of 2016 budgetary activity appears in Note 4.

***Capital Assets***

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

***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.

***Fund Balance***

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

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

***Nonspendable*** The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

***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.

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

***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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

***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 Township 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.

**Note 3 – Compliance**

Contrary to Ohio law, appropriations exceeded estimated resources in the Road and Bridge fund and Fire District fund by \$250,000 and \$129,122 respectively for the year ended December 31, 2016.

**Note 4 – Budgetary Activity**

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$861,000	\$1,364,273	\$503,273
Special Revenue	427,500	462,909	35,409
Total	\$1,288,500	\$1,827,182	\$538,682

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,128,094	\$787,303	\$340,791
Special Revenue	848,541	383,287	465,254
Total	\$1,976,635	\$1,170,590	\$806,045

**Note 5 – Deposits**

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

	2016
Demand deposits	\$1,583,055

***Deposits***

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution’s public entity deposit pool.

**Note 6 – Property Taxes**

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

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

**Note 7 – Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016.

	<b>2016</b>
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$6,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<b><u>2016 Contributions to OTARMA</u></b>
\$14,035

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

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subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

***Social Security***

Several of the Township's fire department employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

**Note 9 – Postemployment Benefits**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2 percent during calendar year 2016.

**Note 10 – Joint Economic Development Zone**

The Joint Economic Development Zone (JEDZ) is comprised of Spencer Township and the Village of Whitehouse. The purpose of this JEDZ is to facilitate planned, orderly, new or expanded commercial and industrial growth within the region; creating, retaining and enhancing employment opportunities for the benefit of Whitehouse and Spencer, and their residents, and all of the residents of the region.

The Zone operates under an appointed 6 member board, and levies an income tax of 1.5%. The tax proceeds are split between the Township and the Village. The Township receives 75% of the proceeds. The Village of Whitehouse agrees as consideration for this JEDZ contract with the Board to administer, collect, and enforce the income tax on behalf of the JEDZ. The 2016 revenue to the Township was \$1,228,743.

**Spencer Township**  
*Lucas County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*  
*(Continued)*

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**Note 11 – Interfund Activity**

***Advances***

Advances during the year ended December 31, 2016 included \$60,000 advanced from the General Fund to the Fire District fund to cover the costs of fire protection services until property tax revenues were received. Amounts were repaid during 2016.

***Transfers***

For the year ended December 31, 2016, the Township transferred \$25,200 from the General Fund to the Fire District fund to help cover the costs of fire protection services.



# Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, 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 Spencer Township, Lucas County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated August 28, 2018, wherein we noted the Township 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 Township'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 Township'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 Township'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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-003 to be material weaknesses.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Township'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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2017-002 through 2017-004.

***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 Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

Columbus, Ohio

August 28, 2018



**SPENCER TOWNSHIP  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2017-001**

**Material Weakness**

**Financial Reporting**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Accurate financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements accurately reflects the Township's activity. The Township should have procedures in place to prevent or detect material misstatements for the accurate presentation of the Township's financial statements.

The following errors were noted in the Township's financial statements and footnotes:

- House Bill 66 (personal tangible property tax replacement) receipts were recorded as Property and Other Local Taxes rather than Intergovernmental in the Fire District fund during 2016 for \$19,710.
- Joint Economic Development Zone receipts were recorded as Property and Other Local Taxes rather than Intergovernmental within the General Fund for \$1,178,420 and \$1,228,743 during 2017 and 2016, respectively);
- Fund balance of \$760,592 within the General Fund in 2017 related to appropriations in excess of estimated receipts and outstanding encumbrances was recorded as Unassigned rather than Assigned as required by Governmental Accounting Standards Board (GASB) Statement No. 54, codified as GASB Cod. 1800.176;
- Budgeted receipts entered into the UAN accounting system and used in the "Budget vs Actual" footnotes did not agree to the Certificate of Estimated Resources. For 2017, the General fund Budgeted Receipts in the footnotes was \$995,500; the amount on the Certificate of Estimated Resources was \$949,000. For 2016 the Special Revenue funds Budgeted Receipts in the footnotes was \$937,338; the amount on the Certificate of Estimated Resources was \$427,500.

These errors were not identified and corrected prior to the Township preparing its financial statements and footnotes due to deficiencies in the Township's internal controls over financial statement monitoring. The accompanying financial statements and footnotes have been adjusted to correct these errors. Additional errors were noted in smaller relative amounts.

To help ensure the Township's financial statements and footnotes are complete and accurate, the Township should adopt policies and procedures, including a final review of the financial statements and footnotes by the Fiscal Officer and Board of Trustees, to identify and correct errors and omissions. The Fiscal Officer can refer to Auditor of State Bulletin 2011-004 for information on GASB Statement No. 54.

**FINDING NUMBER 2017-002**

**Noncompliance**

**Ohio Rev. Code § 5705.39** provides that the total appropriations from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded the total estimated resources for the following funds at year ends:

	<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<b>12/31/2017:</b>	Fire District	\$129,500	\$177,650	(\$48,150)
	Permissive Motor Vehicle License Tax	33,500	60,000	(26,500)
<b>12/31/2016:</b>	Road and Bridge	\$0	\$250,000	(\$250,000)
	Fire District	373,500	502,622	(129,122)

These errors were caused by inadequate policies and procedures over the budgetary monitoring process. Allowing appropriations to remain higher than estimated resources increases the possibility appropriations may be unrealistically inflated which could result in deficit spending. Appropriations should have been reduced to the level of the actual resources available for appropriation.

The Fiscal Officer and Board of Trustees should monitor appropriations and estimated resources throughout the year to ensure appropriations do not exceed the amount of estimated resources. In addition, the Fiscal Officer and Board of Trustees should approve supplemental appropriations and send them to the County Auditor or obtain increased amended certificates of estimated resources when estimated resources increase.

**FINDING NUMBER 2017-003**

**Noncompliance and Material Weakness**

**Ohio Rev. Code § 5705.10(F)** provides, in part, that except as provided in divisions (G) and (H) of this section, if a permanent improvement of the subdivision is sold, the amount received from the sale shall be paid into a sinking fund, the bond retirement fund, or a special fund for the construction or acquisition of permanent improvements.

A Sale of Capital Assets receipt from the sale of a brush truck in 2017 was recorded within the Fire District fund for \$6,000 rather than in a Capital Projects fund for permanent improvements.

This error was caused by a lack of knowledge and procedures over the recording of receipts related to the sale of capital assets. Failure to properly record the sale of the brush truck in a capital project fund resulted in an overstatement of fund balance for the Fire District fund. The accompanying financial statements and Township accounting records have been adjusted to correct this error.

The Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Board of Trustees, to identify and correct errors and omissions.

#### **FINDING NUMBER 2017-004**

##### **Noncompliance**

**Ohio Rev. Code § 135.18(B)** requires an entity's public depository to pledge eligible securities equal to at least one hundred five percent of the total deposit. Review of Fifth Third Bank's pooled collateral indicated that Fifth Third Bank was only collateralized at ninety-one and a half percent at December 31, 2017. As a result, \$182,238 of the Township's bank balance of \$2,393,974 was exposed to custodial credit risk at year end. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

This error was caused by inadequate policies and procedures regarding the review of pooled collateral statements. Failure to properly collateralized bank accounts could result in loss of public money in the event of a bank failure. The Township should ensure its deposits are properly collateralized.

##### **Officials' Response:**

We did not receive a response from Officials to the findings reported above.



# SPENCER TOWNSHIP

## ADMINISTRATIVE OFFICES

630 North Meilke Road

P.O. Box 28

Holland, Ohio 43528

### SPENCER TOWNSHIP LUCAS COUNTY

#### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding was first reported during the audit of the 2006-2007 financial statements. Material Weakness for errors in financial reporting.	Not corrected and repeated as Finding 2017-001 in this report.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements and footnotes prior to filing the Township's annual report. The Township is implementing procedures to correct these errors for the future.
2015-002	Ohio Rev. Code §505.24(D) for improper payroll certifications.	Fully Corrected.	
2015-003	Ohio Rev. Code §5705.10(C) for failure to record receipts in the proper funds.	Partially corrected and repeated in Management Letter.	Amounts not recorded in proper funds for the audit period were not material. These errors were a result of inadequate policies and procedures in reviewing financial statements and accounting records during the audit period. The Township is implementing procedures to correct these errors for the future.



# Dave Yost • Auditor of State

SPENCER TOWNSHIP

LUCAS COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER, 11 2018