



**Auditor of State
Betty Montgomery**

**SMITH TOWNSHIP
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

Smith Township
Belmont County
45741 Belmont-Centerville Road
Belmont, Ohio 43718

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 23, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Smith Township
Belmont County
45741 Belmont-Centerville Road
Belmont, Ohio 43718

To the Board of Trustees:

We have audited the accompanying financial statements of Smith Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the year ended December 31, 2004 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Smith Township, Belmont County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 23, 2005

**SMITH TOWNSHIP
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Funds</u>	
Cash Receipts:					
Local Taxes	\$13,929	\$133,851	\$	\$	\$147,780
Intergovernmental	67,096	128,618			195,714
Earnings on Investments	522	348	627	192	1,689
Other Revenue	620			150	770
	<u>82,167</u>	<u>262,817</u>	<u>627</u>	<u>342</u>	<u>345,953</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	51,133	735			51,868
Public Safety		65,527			65,527
Public Works	6,009	122,106			128,115
Health	8,574				8,574
Debt Service:					
Redemption of Principal	9,681	7,982	5,759		23,422
Interest and Fiscal Charges	1,129		2,128		3,257
Capital Outlay	900		82,113		83,013
	<u>77,426</u>	<u>196,350</u>	<u>90,000</u>	<u>0</u>	<u>363,776</u>
Total Cash Disbursements					
Total Cash Receipts Over/(Under) Cash Disbursements	<u>4,741</u>	<u>66,467</u>	<u>(89,373)</u>	<u>342</u>	<u>(17,823)</u>
Other Financing Receipts:					
Sale of Notes			90,000		90,000
	<u>0</u>	<u>0</u>	<u>90,000</u>	<u>0</u>	<u>90,000</u>
Total Other Financing Receipts					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	4,741	66,467	627	342	72,177
Fund Cash Balances, January 1	<u>23,021</u>	<u>109,815</u>	<u>27,654</u>	<u>33,816</u>	<u>194,306</u>
Fund Cash Balances, December 31	<u>\$27,762</u>	<u>\$176,282</u>	<u>\$28,281</u>	<u>\$34,158</u>	<u>\$266,483</u>
Reserve for Encumbrances, December 31	<u>\$175</u>	<u>\$976</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,151</u>

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

**SMITH TOWNSHIP
BELMONT COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Funds</u>	
Cash Receipts:					
Local Taxes	\$12,824	\$102,526	\$	\$	\$115,350
Intergovernmental	63,411	111,864			175,275
Earnings on Investments	671	447	1,092	383	2,593
Other Revenue	4,069				4,069
Total Cash Receipts	<u>80,975</u>	<u>214,837</u>	<u>1,092</u>	<u>383</u>	<u>297,287</u>
Cash Disbursements:					
Current:					
General Government	60,337				60,337
Public Safety		67,837			67,837
Public Works	6,532	114,675			121,207
Health	10,286				10,286
Debt Service:					
Redemption of Principal	9,256				9,256
Interest and Fiscal Charges	1,554				1,554
Total Cash Disbursements	<u>87,965</u>	<u>182,512</u>	<u>0</u>	<u>0</u>	<u>270,477</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(6,990)</u>	<u>32,325</u>	<u>1,092</u>	<u>383</u>	<u>26,810</u>
Other Financing Receipts and (Disbursements):					
Transfers-In	3,907	25,127			29,034
Transfers-Out		(29,034)			(29,034)
Total Other Financing Receipts/(Disbursements)	<u>3,907</u>	<u>(3,907)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(3,083)</u>	<u>28,418</u>	<u>1,092</u>	<u>383</u>	<u>26,810</u>
Fund Cash Balances, January 1	<u>26,104</u>	<u>81,397</u>	<u>26,562</u>	<u>33,433</u>	<u>167,496</u>
Fund Cash Balances, December 31	<u>\$23,021</u>	<u>\$109,815</u>	<u>\$27,654</u>	<u>\$33,816</u>	<u>\$194,306</u>
Reserve for Encumbrances, December 31	<u>\$46</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$46</u>

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Smith Township, Belmont 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, cemetery maintenance, and fire protection. The Township contracts with the Smith Township Volunteer Fire Department to provide fire services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township 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 Auditor of State prescribes or permits.

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit and U.S. Treasury Notes at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

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

Fire District Fund - This fund receives property tax money to provide fire protection services for Township residents.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Projects Fund:

Community Building Fund – This fund received note proceeds to be repaid through a special levy to perform renovations and repairs to the Community Center Building.

4. Fiduciary Funds (Trust Funds)

These funds account for resources restricted by legally binding trust agreements. If the agreement requires the Township to maintain the corpus of the trust, the Township classifies the activity as a nonexpendable trust fund. The Township's Nonexpendable Trust Funds had no disbursements for the years ended December 31, 2004 and 2003.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the legal level of control, and appropriations may not exceed estimated resources. For 2004, the Township's legal level of control was defined at the fund level. For 2003, the Township's legal level of control was defined at the fund, function, and object level. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

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

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2004	2003
Demand deposits	\$229,639	\$133,430
Passbook savings account	2,257	2,099
Certificates of deposit	34,587	33,777
Total deposits	266,483	169,306
U.S. Treasury Note	0	25,000
Total investments	0	25,000
Total deposits and investments	\$266,483	\$194,306

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

Investments: The Federal Reserve holds the Township's U.S. Treasury Note in book-entry form, in the name of the Township's financial institution. The financial institution maintains records identifying the Township as owner of this security.

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003, follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$74,550	\$82,167	\$7,617
Special Revenue	194,767	262,817	68,050
Capital Projects	86,923	90,627	3,704
Fiduciary	500	342	(158)
Total	\$356,740	\$435,953	\$79,213

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$86,046	\$77,601	\$8,445
Special Revenue	197,307	197,326	(19)
Capital Projects	140,468	90,000	50,468
Fiduciary	500	0	500
Total	\$424,321	\$364,927	\$59,394

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$75,903	\$84,882	\$8,979
Special Revenue	156,200	239,964	83,764
Capital Projects	0	1,092	1,092
Fiduciary	0	383	383
Total	\$232,103	\$326,321	\$94,218

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$94,608	\$88,011	\$6,597
Special Revenue	211,402	211,546	(144)
Capital Projects	26,562	0	26,562
Fiduciary	33,433	0	33,433
Total	\$366,005	\$299,557	\$66,448

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, for the year ended December 31, 2004, budgetary expenditures exceeded appropriations in the Gasoline Tax Fund and the Road and Bridge Fund in the amount of \$6,442 and \$179, respectively. Budgetary expenditures exceeded appropriations in the Federal Emergency Management Agency (FEMA) Fund and the Gasoline Tax Fund by \$29,034 and \$725, respectively, for the year ended December 31, 2003.

Amendments made to Township appropriations were not formally approved by the Board of Trustees at the legal level of control, nor were they certified to the County Auditor, also contrary to Ohio law.

An amended certificate was not obtained for additional revenues received in the FEMA Fund, in the amount of \$29,230, which were subsequently expended by the Township during 2003, also contrary to Ohio law.

4. PROPERTY TAX

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. DEBT

Debt outstanding at December 31, 2004, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note - Backhoe	\$19,837	4.50%
Promissory Note - Community Center	76,259	3.38%
Total	<u>\$96,096</u>	

The Township issued a promissory note to finance the purchase of a new backhoe to be used for Township road maintenance. The note will be repaid in monthly installments of \$901, including interest, over four years. The Township's taxing authority collateralized this note.

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

In 2004, the Township issued a promissory note to finance the repairs and improvements to the Centerville Community Center. The note will be repaid in semi-annual principal payments and monthly interest payments. The Township's taxing authority collateralized this note.

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

Year ending December 31:	Promissory Note - Backhoe	Promissory Note - Community Center
2005	\$10,810	\$29,595
2006	9,909	28,666
2007	21,603	21,603
Total	\$20,719	\$79,864

6. RETIREMENT SYSTEM

The Township's employees and elected officials 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 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

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:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,687,203	\$27,792,223
Liabilities	(13,640,962)	(11,791,300)
Retained earnings	<u>\$17,046,241</u>	<u>\$16,000,923</u>

<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$7,799,073	\$6,791,060
Liabilities	(753,906)	(750,956)
Retained earnings	<u>\$7,045,167</u>	<u>\$6,040,104</u>

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Auditor of State Betty Montgomery

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

Smith Township
Belmont County
45741 Belmont-Centerville Road
Belmont, Ohio 43718

To the Board of Trustees:

We have audited the financial statements of Smith Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 23, 2005, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated September 23, 2005, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

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, providing an opinion 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 that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-004. In a separate letter to the Township's management dated September 23, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Smith Township
Belmont County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 23, 2005

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code § 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount in the official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

We noted the following instance within the Township's FEMA Fund in which an increased amended certificate should have been obtained:

<u>Fiscal Year</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
2003	\$0	\$29,230	(\$29,230)

For the above noted exception, the additional receipts not budgeted were subsequently appropriated and expended by the Township.

In addition, the Township Clerk did not properly post budgeted receipts or any subsequent amendments to the accounting system in 2003. Variances existed between the certificate of estimated resources and the amounts posted to the accounting system throughout the year. The following table details these variances:

<u>Fund</u>	<u>Amount Per Last Amended Certificate</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$75,903	\$79,810	\$3,907
Gasoline Tax	49,000	52,525	3,525
Road and Bridge	32,000	53,602	21,602

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary activity throughout the year. Ohio Administrative Code Section 117-2-02(C)(1) requires the government's internal controls to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts.

We recommend the Township Clerk monitor, on a monthly basis, budget versus actual information. The Township should obtain an increased amended certificate of estimated resources if it determines that revenues will be greater than budgeted amounts. Additionally, we recommend the Township Clerk record only estimated receipts from the Certificate of Estimated Resources and any amendments thereto. The accompanying budgetary note disclosure includes only budgeted receipts certified by the County Auditor.

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

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

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code § 5705.40 provides, in part, that a subdivision may amend or supplement its appropriation measure provided the entity complies with the same provisions of the law as are used in making the original appropriation.

The Township Clerk posted multiple appropriation amendments throughout the period; however, certain amendments were not approved by the Township Trustees in the minutes and/or certified by the County Auditor. The following compares approved appropriations at the legal level of control to those posted to the accounting system:

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2004-002
(Continued)**

<u>Fiscal Year</u>	<u>Fund</u>	<u>Appropriations Posted to the Accounting System</u>	<u>Approved Appropriations</u>	<u>Approved Appropriations over/(under) Appropriations Posted</u>
2004	General	\$88,140	\$86,046	(\$2,094)
	Motor Vehicle License Tax	49,000	17,000	(32,000)
	Gasoline Tax	65,500	50,000	(15,500)
	Road and Bridge	85,405	50,645	(34,760)
	Fire District	66,680	70,680	4,000
	FEMA	196	0	(196)
	Miscellaneous Capital Projects	28,454	30,996	2,542
	<u>Fund/Function/Object</u>			
2003	General:			
	General Government:			
	Salaries-Trustees	16,440	22,500	6,060
	OPERS	14,400	11,300	(3,100)
	Workers' Compensation	1,710	1,500	(210)
	Professional & Technical	3,800	3,200	(600)
	Travel & Meeting Expenses	524	800	276
	Office Supplies	1,518	1,700	182
	Public Works:			
	Contracted Services	7,400	4,900	(2,500)
	Health:			
	Other Expenses	5,850	5,500	(350)
	Capital Outlay:			
	Machinery, Equip. & Furn.	13,217	11,733	(1,484)
	Motor Vehicle License Tax:			
	Public Works:			
	Salaries-Trustees	1,500	0	(1,500)
	Operating Supplies	12,500	14,000	1,500
	Gasoline Tax:			
	Public Works:			
	Salaries-Trustees	3,000	0	(3,000)
	Other - Salaries	39,325	37,000	(2,325)
	Contracted Services	500	5,500	5,000
	Operating Supplies	24,700	21,000	(3,700)
	Small Tools & Minor Equip.	0	500	500

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2004-002
(Continued)**

<u>Fiscal Year</u>	<u>Fund</u>	<u>Appropriations Posted to the Accounting System</u>	<u>Approved Appropriations</u>	<u>Approved Appropriations over/(under) Appropriations Posted</u>
2003 (Continued)	Road and Bridge:			
	Public Works:			
	Salaries-Trustees	3,000	0	(3,000)
	Property Tax Collection			
	Fees	900	0	(900)
	Repairs & Maintenance	20,603	10,000	(10,603)
	Contracted Services	22,000	24,000	2,000
	Operating Supplies	25,999	16,000	(9,999)
	Other Expenses	3,005	3,905	900
	FEMA:			
	Other Financing Uses:			
	Transfers-Out	29,034	0	(29,034)

We recommend the Township Clerk review budgetary procedures for amending appropriations, document Township Trustee approval of all appropriation amendments in the minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Township Clerk should post these amendments only after the required approvals have been obtained. The accompanying budgetary note disclosure includes only appropriations approved by the Township Trustees.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

The following Township funds had expenditures which exceeded appropriations:

<u>Fiscal Year</u>	<u>Fund</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
2004	Gasoline Tax	\$ 50,000	\$ 56,442	\$ (6,442)
	Road and Bridge	50,645	50,824	(179)
2003	Gasoline Tax	64,000	64,725	(725)
	FEMA	0	29,034	(29,034)

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2004-003
(Continued)**

Ohio Rev. Code § 5705.41(B) (Continued)

Additionally, although total fund budgetary expenditures did not exceed appropriations in the General, Motor Vehicle License Tax, and Road and Bridge Funds during 2003, expenditures exceeded appropriations at the legal level of control which was at the fund, function, object level, for certain accounts within these funds. The practice of allowing expenditures to exceed appropriations could result in deficit spending by the Township Trustees.

We recommend the Township Clerk monitor all expenditures at the legal level of control to ensure expenditures remain within their respective budgeted amounts. The Township Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Township Clerk may request the Township Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Rev. Code § 5705.41(D) (1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Ohio Rev. Code Sections 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made and at the time that he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

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

**FINDING NUMBER 2004-004
(Continued)**

Ohio Rev. Code § 5705.41(D) (1) (Continued)

Blanket Certificate – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

Although the obligations paid by the Township had a statement indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance, this certification of available funds was not obtained prior to incurring the obligation for 35% of transactions tested and there was no evidence of a “Then and Now” certificate being used by the Township Clerk. Failure to properly certify the availability of funds can result in overspending of funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, we recommend that the Township Clerk certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, “then and now” certification should be used.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 5705.41(D) requires to authorize disbursements. The Township Clerk should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Township Clerk should post approved purchase commitments to the appropriation code, to reduce the available appropriation.

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Ohio Rev. Code § 5705.09 for not properly accounting for Issue II monies.	Yes	Finding No Longer Valid.
2002-002	Ohio Rev. Code § 5705.41 (B) for expenditures exceeding appropriations in the Issue II fund.	No	Not Corrected; Reissued as Finding No. 2004-003.
2002-003	Ohio Rev. Code § 5705.41 (D) for not certifying the availability of funds prior to incurring the expenditure.	No	Not Corrected; Reissued as Finding No. 2004-004.
2002-004	Receipts not always posted to the proper classification.	Yes	N/A.



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SMITH TOWNSHIP

BELMONT 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 10, 2005**