

VILLAGE OF SMITHFIELD

JEFFERSON COUNTY

Audit Report

For the Years Ended December 31, 2017 and 2016



OHIO AUDITOR OF STATE KEITH FABER



Village Council
Village of Smithfield
PO Box 454
Smithfield, Ohio 43948

We have reviewed the *Independent Auditor's Report* of the Village of Smithfield, Jefferson County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 21, 2019

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Village of Smithfield
Jefferson County
For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Village of Smithfield
Jefferson County
PO Box 454
Smithfield, Ohio 43948

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Smithfield, Jefferson County, (the Village) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating of the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, or changes in financial position or cash flows thereof for the years then ended.

Basis for Additional Opinion Qualification

Charges for services receipts are reported at \$44,962 and \$183,820 for the years ended December 31, 2017 and 2016, respectively, which are 100 percent of Sewer Fund receipts. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Opinion on Regulatory Basis of Accounting

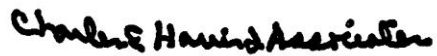
In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Smithfield, Jefferson County, 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.

Emphasis of Matters

As discussed in Note 12 to the financial statements, on October 14, 2014, the Auditor of State declared the Village of Smithfield to be in a state of fiscal caution as defined by Ohio Rev. Code Section 118.025(A). Also discussed in Note 12 to the financial statements, on February 19, 2015, the Auditor of State declared the Village of Smithfield to be in a state of fiscal emergency as defined by Ohio Rev. Code Section 188.03(A). We did not modify our opinions regarding these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Village's 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.



Charles E. Harris & Associates, Inc.
December 10, 2018

Village of Smithfield
Jefferson 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

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|--|-------------------------|--------------------|-----------|--------------------------------|
| | General | Special Revenue | Permanent | |
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$ 34,478 | \$ 63,392 | \$ - | \$ 97,870 |
| Municipal Income Tax | 22,323 | - | - | 22,323 |
| Intergovernmental | 26,717 | 59,737 | - | 86,454 |
| Charges for Services | - | 2,175 | - | 2,175 |
| Fines, Licenses and Permits | 6,849 | 5 | - | 6,854 |
| Earnings on Investments | 15 | - | - | 15 |
| Royalties | 17,080 | - | - | 17,080 |
| Lease - Oil and Gas | 74,768 | - | - | 74,768 |
| Miscellaneous | 3,716 | - | - | 3,716 |
| <i>Total Cash Receipts</i> | 185,946 | 125,309 | - | 311,255 |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,350 | 60,331 | - | 61,681 |
| Public Health Services | - | 2,610 | - | 2,610 |
| Leisure Time Activities | - | 3,225 | - | 3,225 |
| Transportation | - | 23,647 | - | 23,647 |
| General Government | 167,986 | - | - | 167,986 |
| Debt Service: | | | | |
| Principal Retirement | 5,460 | - | - | 5,460 |
| Interest and Fiscal Charges | 397 | - | - | 397 |
| <i>Total Cash Disbursements</i> | 175,193 | 89,813 | - | 265,006 |
| <i>Net Change in Fund Cash Balances</i> | 10,753 | 35,496 | - | 46,249 |
| <i>Fund Cash Balances, January 1, restated</i> | 198,792 | (471,158) | 28,739 | (243,627) |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | - | - | 28,739 | 28,739 |
| Restricted | - | 223,378 | - | 223,378 |
| Unassigned (Deficit) | 209,545 | (659,040) | - | (449,495) |
| <i>Fund Cash Balances, December 31</i> | \$ 209,545 | \$ (435,662) | \$ 28,739 | \$ (197,378) |

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

Village of Smithfield
Jefferson County

*Combined Statement of Receipts, Disbursements and Changes in
Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2017*

| | Proprietary Fund Type | Fiduciary Fund Type | Totals (Memorandum Only) |
|--|--------------------------|------------------------|--------------------------------|
| | Enterprise | Agency | |
| Operating Cash Receipts | | | |
| Charges for Services | \$ 44,962 | \$ - | \$ 44,962 |
| Fines, Licenses and Permits | - | 12,203 | 12,203 |
| <i>Total Operating Cash Receipts</i> | 44,962 | 12,203 | 57,165 |
| Operating Cash Disbursements | | | |
| Personal Services | 2,164 | - | 2,164 |
| Employee Fringe Benefits | 1,552 | - | 1,552 |
| Contractual Services | 12,031 | - | 12,031 |
| Supplies and Materials | 1,751 | - | 1,751 |
| Other | 283 | 9,261 | 9,544 |
| <i>Total Operating Cash Disbursements</i> | 17,781 | 9,261 | 27,042 |
| <i>Income (Loss) before Special Item</i> | 27,181 | 2,942 | 30,123 |
| Special Item - See Note 13 | (136,724) | - | (136,724) |
| <i>Net Change in Fund Cash Balances</i> | (109,543) | 2,942 | (106,601) |
| <i>Fund Cash Balances, January 1, restated</i> | 399,291 | 43,600 | 442,891 |
| <i>Fund Cash Balances, December 31</i> | <u>\$ 289,748</u> | <u>\$ 46,542</u> | <u>\$ 336,290</u> |

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

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

The Village of Smithfield, Jefferson County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides street maintenance and repair, park operations, and police services. The Village contracts with Smithfield Volunteer Fire Department for fire protection and emergency medical services.

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

On October 2, 2014, the Village was placed in Fiscal Caution by the Auditor of State. The Village of Smithfield was subsequently declared to be in a state of fiscal emergency as defined in Sections 118.03(A)(1) of the Ohio Revised Code on February 19, 2015. Please see Note 12 for additional information.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village 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 Village 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 Village 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 to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund The street construction, maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Police Salary The police salary fund accounts for and reports that amount of property tax money that has been restricted for the purpose of paying for the cost of police services.

Permanent Fund These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting Village's programs (for the benefit of the Village or its citizenry). The Village had the following significant Permanent Fund:

Perpetual Care Fund The perpetual care fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

Enterprise Funds These funds account for and report operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Sewer Fund The sewer fund accounts for and reports the providing of sanitary sewer services to the residents and commercial users within the Village.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Mayor's court activities.

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 Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements 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 (except certain agency funds) be budgeted annually.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Appropriations Budgetary disbursements (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 Village Council 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 Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting. The Village did not encumber all commitments required by Ohio law.

A summary of 2017 budgetary activity appears in Note 5.

Deposits and Investments

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

Capital Assets

The Village 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 Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village 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.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Committed Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless Council amends the ordinance or 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 Council or a Village official delegated that authority by resolution, or by State Statute. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year's appropriated budget in the General Fund.

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

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

Note 3 – Restatement of Fund Balance

The Village recorded fund balance adjustments for voided checks from prior years. The effects of these voided checks are as follows:

| | Governmental Fund Type | Proprietary Fund Type |
|--|---------------------------|--------------------------|
| Fund Balance (Deficit) 12/31/16 | \$ (245,800) | \$ 398,651 |
| Adjustment: | | |
| Voided Checks | 2,173 | 640 |
| Restated Fund Balance (Deficit) 1/1/17 | \$ (243,627) | \$ 399,291 |

Note 4 – Compliance

Contrary to Ohio Rev. Code Section 5705.41(b), budgetary disbursements exceeded appropriation authority in the General Fund, Street, State Highway, Police Salary, EMS, Recreation Special Revenue Funds, and the Sewer Enterprise Fund for the year ended December 31, 2017.

Contrary to Ohio Rev. Code Section 5705.41(d), the Village did not make proper certification of funds for any disbursement tested during the year.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Compliance (continued)

Contrary to Ohio Rev. Code Section 5705.36, the Village did not certify available resources to the County Auditor for the year ended December 31, 2017. Due to the lack of certification of available resources, contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in all funds for the year ended December 31, 2017.

Contrary to Ohio Rev. Code Section 5705.10(I), at December 31, 2017, the following funds had a deficit cash balance:

| Fund | Amount |
|--------------------|------------|
| Street | \$ 126,452 |
| Police Salary | 351,797 |
| Police Protection | 170,182 |
| Recreation | 2,169 |
| Canine | 3,429 |
| Water Operating | 76,152 |
| Cemetery Operating | 5,011 |
| Debt Reserve | 94,870 |

Note 5 - 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 | \$ - | \$ 185,946 | \$ 185,946 |
| Special Revenue | - | 125,309 | 125,309 |
| Enterprise | - | 44,962 | 44,962 |

| 2017 Budgeted vs. Actual Budgetary Basis Disbursements | | | |
|--|----------------------------|----------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Disbursements | Variance |
| General | \$ 81,848 | \$ 175,193 | \$ (93,345) |
| Special Revenue | 115,604 | 89,813 | 25,791 |
| Enterprise | 161,500 | 154,505 | 6,995 |

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 – Deposits and Investments

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

| | |
|-----------------|-------------|
| | <u>2017</u> |
| Demand deposits | \$ 138,912 |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the Ohio Pooled Collateral System (OPCS). At December 31, 2017, all of the Village's deposits were insured by the Federal Deposit Insurance Corporation.

Note 7 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

Income Taxes

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

The Regional Income Tax Agency (RITA) administers the income tax collections on behalf of the Village. Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. RITA then remits income taxes collected to the Village on a monthly basis, excluding RITA's administrative costs for administering the income tax.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 - Risk Management

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

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

| | <u>2017</u> |
|--------------|----------------------------|
| Assets | \$44,452,326 |
| Liabilities | <u>(13,004,011)</u> |
| Net Position | <u>\$31,448,315</u> |

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Village's share of these unpaid claims collectible in future years is approximately \$4,000.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 - Risk Management (continued)

Based on discussions with PEP, the expected rates PEP 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 PEP for each year of membership.

| |
|---|
| <u>2017 Contributions to PEP</u> \$6,474 |
|---|

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP 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 PEP. 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 9 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All 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% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Note 10 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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% during calendar year 2017.

Note 11 – Contingent Liabilities

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

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 12 – Fiscal Caution and Emergency

On October 14, 2014, the Auditor of State declared the Village of Smithfield to be in a state of fiscal caution in accordance with Section 118.025(A) of the Ohio Revised Code.

On February 19, 2015, the Auditor of State declared the Village of Smithfield to be in a state of fiscal emergency in accordance with Section 188.03(A) of the Ohio Revised Code. Based upon the Village's population, the Auditor of State will serve as the financial supervisor and has all of the powers and responsibilities of a financial planning and supervision commission.

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit to the financial supervisor a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions. The Village developed a recovery plan that includes staff reductions, the implementation of a one percent municipal income tax, the signing of an oil and gas lease and the transfer of the Village's sewer assets and operations to Jefferson County. The Village is currently working to bring all financial information up to date, and once all information is current, the recovery plan will be reviewed to determine if the steps outlined will eliminate all fiscal emergency conditions.

Note 13 – Special Item: Transfer of Operations

Under an Asset Transfer Agreement between Jefferson County (the County) and the Village, the County agreed to accept the Village's sewer system operation for the purpose of enhancing the provision of sewer services to the Village's citizens. On June 21, 2017, the Village transferred all assets related to its sewer operations to the County. The Village had previously settled all liabilities associated with the sewer operations prior to the transfer of operations as a condition of the Asset Transfer Agreement. A portion of the liabilities that were settled was an outstanding loan from USDA. This debt was discharged and the Village was subsequently issued a 1099-C from USDA in the amount of \$859,352 of which \$149,352 was considered interest. The cash received by the County from the Village in the amount of \$136,724, will be used for capital items.

Village of Smithfield
Jefferson 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*

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|-----------|--------------------------------|
| | General | Special Revenue | Permanent | |
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$ 49,183 | \$ 63,051 | \$ - | \$ 112,234 |
| Intergovernmental | 29,952 | 57,902 | - | 87,854 |
| Charges for Services | - | 3,606 | - | 3,606 |
| Fines, Licenses and Permits | 21,991 | 708 | - | 22,699 |
| Earnings on Investments | 5 | - | - | 5 |
| Miscellaneous | 11,880 | 1,050 | - | 12,930 |
| <i>Total Cash Receipts</i> | 113,011 | 126,317 | - | 239,328 |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 980 | 77,793 | - | 78,773 |
| Public Health Services | - | 4,062 | - | 4,062 |
| Leisure Time Activities | - | 5,000 | - | 5,000 |
| Transportation | - | 30,335 | - | 30,335 |
| General Government | 83,958 | - | - | 83,958 |
| Debt Service: | | | | |
| Principal Retirement | - | 4,462 | - | 4,462 |
| Interest and Fiscal Charges | - | 1,030 | - | 1,030 |
| <i>Total Cash Disbursements</i> | 84,938 | 122,682 | - | 207,620 |
| <i>Excess of Receipts Over (Under) Disbursements</i> | 28,073 | 3,635 | - | 31,708 |
| Other Financing Receipts (Disbursements) | | | | |
| Transfers In | - | 8,076 | - | 8,076 |
| Transfers Out | (8,076) | - | - | (8,076) |
| <i>Total Other Financing Receipts (Disbursements)</i> | (8,076) | 8,076 | - | - |
| <i>Net Change in Fund Cash Balances</i> | 19,997 | 11,711 | - | 31,708 |
| <i>Fund Cash Balances, January 1, restated</i> | 177,241 | (483,488) | 28,739 | (277,508) |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | - | - | 28,739 | 28,739 |
| Restricted | - | 222,836 | - | 222,836 |
| Unassigned (Deficit) | 197,238 | (694,613) | - | (497,375) |
| <i>Fund Cash Balances, December 31</i> | \$ 197,238 | \$ (471,777) | \$ 28,739 | \$ (245,800) |

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

**Village of Smithfield
Jefferson County**

*Combined Statement of Receipts, Disbursements and Changes in
Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2016*

| | Proprietary Fund Type | Fiduciary Fund Type | Totals (Memorandum Only) |
|---|--------------------------|------------------------|--------------------------------|
| | Enterprise | Agency | |
| Operating Cash Receipts | | | |
| Charges for Services | \$ 183,820 | \$ - | \$ 183,820 |
| Fines, Licenses and Permits | - | 13,067 | 13,067 |
| <i>Total Operating Cash Receipts</i> | 183,820 | 13,067 | 196,887 |
| Operating Cash Disbursements | | | |
| Personal Services | 24,673 | - | 24,673 |
| Employee Fringe Benefits | 19,965 | - | 19,965 |
| Contractual Services | 62,523 | - | 62,523 |
| Supplies and Materials | 3,923 | - | 3,923 |
| Other | 4,907 | 17,207 | 22,114 |
| <i>Total Operating Cash Disbursements</i> | 115,991 | 17,207 | 133,198 |
| <i>Operating Income (Loss)</i> | 67,829 | (4,140) | 63,689 |
| Non-Operating Receipts (Disbursements) | | | |
| Earnings on Investments | 8 | - | 8 |
| <i>Total Non-Operating Receipts (Disbursements)</i> | 8 | - | 8 |
| <i>Net Change in Fund Cash Balances</i> | 67,837 | (4,140) | 63,697 |
| <i>Fund Cash Balances, January 1, restated</i> | 330,814 | 47,740 | 378,554 |
| <i>Fund Cash Balances, December 31</i> | \$ 398,651 | \$ 43,600 | \$ 442,251 |

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

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Smithfield, Jefferson County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides street maintenance and repair, park operations, and police services. The Village contracts with Smithfield Volunteer Fire Department for fire protection and emergency medical services.

On October 2, 2014, the Village was placed in Fiscal Caution by the Auditor of State. The Village of Smithfield was subsequently declared to be in a state of fiscal emergency as defined in Sections 118.03(A)(1) of the Ohio Revised Code on February 19, 2015. Please see Note 12 for additional information.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village 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 Village 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 Village 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 to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund The street construction, maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Police Salary The police salary fund accounts for and reports that amount of property tax money that has been restricted for the purpose of paying for the cost of police services.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Permanent Fund These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting Village's programs (for the benefit of the Village or its citizenry). The Village had the following significant Permanent Fund:

Perpetual Care Fund The perpetual care fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

Enterprise Funds These funds account for and report operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Sewer Fund The sewer fund accounts for and reports the providing of sanitary sewer services to the residents and commercial users within the Village.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Mayor's court activities.

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 Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements 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 (except certain agency funds) be budgeted annually.

Appropriations Budgetary disbursements (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 Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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 Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting. The Village did not encumber all commitments required by Ohio law.

A summary of 2016 budgetary activity appears in Note 5.

Deposits and Investments

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

Capital Assets

The Village 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 Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village 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 Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless Council amends the ordinance or 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.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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 Council or a Village official delegated that authority by resolution, or by State Statute. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year's appropriated budget in the General Fund.

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

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

Note 3 – Restatement of Fund Balance

The Village recorded fund balance adjustments for voided checks from prior years and a reclassification of the cemetery operating fund. The effects of these adjustments are as follows:

| | Governmental Fund Type | Proprietary Fund Type |
|--|---------------------------|--------------------------|
| Fund Balance (Deficit) 12/31/15 | \$ (292,662) | \$ 313,117 |
| Adjustment: | | |
| Cemetery - GASB 54 Reclass | (11,731) | 11,731 |
| Voided Checks | 26,885 | 5,966 |
| Restated Fund Balance (Deficit) 1/1/16 | \$ (277,508) | \$ 330,814 |

Note 4 – Compliance

Contrary to Ohio Rev. Code Section 5705.38, the Village did not approve an appropriation measure for the year ended December 31, 2016. Due to the failure to pass an appropriation measure, contrary to Ohio Rev. Code Section 5705.41(b), budgetary disbursements exceeded appropriation authority in all funds for the year ended December 31, 2016.

Contrary to Ohio Rev. Code Section 5705.36, the Village did not certify available resources to the County Auditor for the year ended December 31, 2016.

Contrary to Ohio Rev. Code Section 5705.41(d), the Village did not make proper certification of funds for any disbursement tested during the year.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Compliance (continued)

Also contrary to Ohio Rev. Code Section 5705.10(I), at December 31, 2016, the following funds had a deficit cash balance:

| Fund | Amount |
|--------------------|------------|
| Street | \$ 142,727 |
| Police Salary | 361,005 |
| Police Protection | 175,112 |
| Recreation | 4,444 |
| Canine | 3,429 |
| Water Operating | 76,152 |
| Cemetery Operating | 7,896 |
| Debt Reserve | 94,870 |

Note 5 - 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 | \$ - | \$ 113,011 | \$ 113,011 |
| Special Revenue | - | 134,393 | 134,393 |
| Enterprise | - | 183,828 | 183,828 |

| 2016 Budgeted vs. Actual Budgetary Basis Disbursements | | | |
|--|----------------------------|----------------------------|--------------|
| Fund Type | Appropriation Authority | Budgetary Disbursements | Variance |
| General | \$ - | \$ 121,087 | \$ (121,087) |
| Special Revenue | - | 122,682 | (122,682) |
| Enterprise | - | 115,991 | (115,991) |

Note 6 – Deposits and Investments

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

| | |
|-----------------|------------|
| | 2016 |
| Demand deposits | \$ 196,451 |

Deposits

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

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

Note 8 - Risk Management

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

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

Settled claims have not exceeded coverage in any of the past three years and coverage limits have not changed significantly since last year.

Note 9 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All 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% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 10 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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% during calendar year 2016.

Note 11 – Debt

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|-------------------------|------------|---------------|
| Rural Development Bonds | \$ 710,000 | 5.75% |
| Cruiser Loan | 5,460 | 11.40% |
| Total | \$ 715,460 | |

The United States Department of Agriculture issued a mortgage revenue bond to the Village for the construction of a sanitary sewer system. The amount of the bond was \$1,000,000 and it is to be repaid in annual installments through 2032. The bond is collateralized by future sewer receipts.

The Village was not able to make the January 1, 2015 payment due to the United States Department of Agriculture and Rural Development (USDA) in the amount of \$63,825. This resulted in the acceleration of the debt and the entire indebtedness due on the Sanitary Sewage System First Mortgage Revenue Bonds was declared immediately due and payable. As of December 31, 2016, the amount due was \$710,000 in principal and approximately \$116,255 in accrued interest.

In 2017, The Village and Jefferson County entered into an Asset Transfer Agreement. Pursuant to the Agreement the Village will transfer the sewer operations and all real estate and other assets to Jefferson County, as outlined in the agreement. During the process of preparing all legal documents related to the Transfer, the Village and County have entered into a Management Agreement. In 2017, the Village has turned over all day-to-day operations of the Sewer System to the Jefferson County Water and Sewer Department.

Chrysler Capital issued a loan to the Village for the purchase of a new police cruiser. The amount of the loan was \$19,066 and is to be repaid in monthly installments through April 2018. The loan is collateralized by the police cruiser that was purchased with said debt. The balance of this loan was overstated in 2015 by \$614.

Amortization

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

Village of Smithfield
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 11 – Contingent Liabilities

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

Note 12 – Fiscal Caution and Emergency

On October 14, 2014, the Auditor of State declared the Village of Smithfield to be in a state of fiscal caution in accordance with Section 118.025(A) of the Ohio Revised Code.

On February 19, 2015, the Auditor of State declared the Village of Smithfield to be in a state of fiscal emergency in accordance with Section 188.03(A) of the Ohio Revised Code. Based upon the Village's population, the Auditor of State will serve as the financial supervisor and has all of the powers and responsibilities of a financial planning and supervision commission.

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit to the financial supervisor a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions. The Village developed a recovery plan that includes staff reductions, the implementation of a one percent municipal income tax, the signing of an oil and gas lease and the transfer of the Village's sewer assets and operations to Jefferson County. The Village is currently working to bring all financial information up to date, and once all information is current, the recovery plan will be reviewed to determine if the steps outlined will eliminate all fiscal emergency conditions.

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Village of Smithfield
Jefferson County
PO Box 454
Smithfield, Ohio 43948

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts and disbursements by fund type of the Village of Smithfield, Jefferson County (the Village) 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 December 10, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted as described in Note 12, on October 14, 2014, the Auditor of State declared the Village of Smithfield to be in a state of fiscal caution as defined by Ohio Rev. Code Section 118.025(A) and on February 19, 2015, the Auditor of State declared the Village of Smithfield to be in a state of fiscal emergency as defined by Ohio Rev. Code Section 188.03(A). Also, we qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as charges for services in the Sewer Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Village of Smithfield

Jefferson County

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Page 2

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 deficiencies in internal control 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 through 2017-004, 2017-007, and 2017-009 through 2017-011 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2017-002 through 2017-010 and 2017-012.


We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 10, 2018.

Village's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the Village's responses and, accordingly, we do not express an opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris and Associates, Inc.

December 10, 2018

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

| |
|--|
| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS |
|--|

Finding Number: 2017-001 – Material Weakness

Audit Adjustments and Reclassifications

During 2017 and 2016, errors were noted in the Village’s financial statements that required audit adjustments and reclassifications, the most significant of which are as follows:

- The receipt of a rollback was incorrectly recorded as a gas tax and motor vehicle license tax receipt and not correctly allocated to funds during 2017.
- The receipt of cemetery fees was incorrectly posted as mayor’s court fines and fees and improperly posted to the fiduciary fund instead of governmental funds in 2016.
- The health district allocation recorded as a part of the semi-annual property tax settlement sheet was incorrectly posted as a general government expense instead of a public health expense.
- The Cemetery fund activity was incorrectly classified as an enterprise fund instead of a special revenue fund. The beginning balance was restated and all activity for 2017 and 2016 was reclassified.
- The receipt of charges for services revenue from the utility system was recorded as miscellaneous revenue in the General fund instead of charges for services in the enterprise fund in 2017 and 2016.
- The receipt of grant revenue for the purpose of leisure time activities was comingled with general fund revenues instead of being posted into a special revenue fund with a restricted purpose. The receipt of this grant revenue and the corresponding expense activities were reclassified as special revenue for 2016. No beginning balance restatement was necessary.
- The allocation of principal and interest was adjusted to correspond with the amortization schedule in 2017 and 2016.
- The disbursement of amounts collected for emergency medical services and paid to the Short Creek Joint Fire District in accordance with the contract to provide EMS to the Village was improperly recorded as a public health service instead of security of persons and property in 2017 and 2016.
- The receipt of fines was incorrectly classified as other financing sources instead of fines, licenses and permits in 2016.

Other immaterial posting errors were also noted and brought to the attention of management. The accompanying financial statements and the Village’s records have been adjusted to properly reflect these transactions.

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

Management Response:

See Corrective Action Plan.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

| |
|--|
| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
|--|

Finding Number: 2017-002 – Noncompliance/Material Weakness

Treasurer’s Responsibility for Accurate Record Keeping

Ohio Rev. Code Section 733.28 provides that the village clerk/treasurer shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all property owned by the village and income derived there from, and of all the taxes and assessments. Ohio Rev. Code Section 733.43 states that the treasurer of a municipal corporation shall keep an accurate account of: all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received; and all disbursements made by him, showing the amount thereof, the time thereof, the time made, to whom, and on what account paid.

The Village Clerk/Treasurer did not keep the books of the Village, and failed to exhibit accurate statements of moneys received and expended, and of all the property owned by the Village or income derived there from and of all taxes and assessments. The Village Clerk/Treasurer did not prepare monthly bank to book reconciliations.

The Village Clerk/Treasurer should record all the financial activity of the Village in the receipts ledger, appropriation ledger, and cash journal as appropriate, so that accurate statements of all monies received and expended can be prepared.

We recommend that the Village Clerk/Treasurer perform monthly bank reconciliations and periodically present financial statements and those monthly bank reconciliations to Council for review. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-003 – Noncompliance/Material Weakness

Maintenance of Accounting System and Accounting Records

Ohio Admin. Code Section 117-2-00(A) requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code Section 117-2-02(D) requires all local public offices to maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

1. Cash journal, which typically, contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

| |
|--|
| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
|--|

Finding Number: 2017-003 – Noncompliance/Material Weakness (continued)

2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of payor, purpose, receipt number, and other information required for the transaction should be recorded on this ledger.
3. Appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.
4. In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations.
 - ii. Payroll journal that records, assembles, and classifies by pay period the name of employee, hours worked, wage rates, pay date, withholdings by type, net pay and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.
 - iv. Information regarding nonmonetary benefits such as car usage and life insurance.
 - v. Information, by employee, regarding leave balances and usage.
 - b. Utilities billing records including:
 - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates.
 - ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount.
 - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

The Village did not maintain an accounting system sufficient to accurately record and report the Village's financial activity as follows:

1. The cash journal had to be constructed by Local Government Services for 2017 and 2016. Additionally, neither a receipt ledger nor an appropriation ledger was maintained for 2017 and 2016. A complete and accurate payroll ledger was not maintained for 2017 and 2016. The payroll ledgers for 2017 and 2016 did not include the check number, check date, or the fund the employee was paid from.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-003 – Noncompliance/Material Weakness (continued)

2. The Village could not provide sufficient payroll documentation for 2017 and 2016, such as salary and pay rates, to support whether employees of the Village were being properly paid. The Village also did not retain any supporting documentation for the 2017 and 2016 withholding remittances such as the quarterly 941's, state tax remittances, and OPERS monthly remittances. The Village could not provide adequate vacation and sick leave records for any employee entitled to leave for 2017 and 2016.
3. The Village was unable to provide complete sewer ledgers, including a billing register, or posted payments ledger for 2017 and 2016.

The condition of accounting records prohibited us from obtaining sufficient evidential matter in our procedures to express an opinion on the activity of the utility billing fund. We were able to perform adequate testing of the reconstructed cash journal, receipts ledger, appropriations ledger and payroll ledger to obtain sufficient evidence to support our opinion on the financial statements.

The Village should establish specific procedures to effectively control each payroll disbursement transaction, including but not limited to the following:

1. Complete and accurate payroll ledgers should be maintained and should include the check number, check date, payee, wage rate, hours worked, gross pay, withholdings, and net pay;
2. The payroll ledger should include month-to-date, quarter-to-date, and year-to-date totals for each employee for each year;
3. Time sheets (when applicable) should be utilized and should be signed by the employee and an immediate supervisor attesting to their validity; and
4. All wage rates, new hires, and appointments should be formally approved by the Board and noted in the minute records.
5. All withholding remittances should be maintained and on file including the quarterly federal 941 reports, state income tax remittances, and monthly OPERS reports and remittances.

The Village should retain all invoices to help substantiate the amount and purpose of all purchases.

Village officials should review the guidelines contained in the Ohio Admin Code to guide them in maintaining the necessary accounting records. Implementation of the suggested procedures may help provide the means to determine that the financial activity of the Village is properly reported and accounted for.

Management Response:

See Corrective Action Plan.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-004 – Noncompliance/Material Weakness

Design and Operation of Internal Control System

Ohio Admin. Code Section 117-2-01(A) provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Internal control is defined as a process affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Reliability of financial reporting;
2. Effectiveness and efficiency of operations;
3. Compliance with applicable laws and regulations; and
4. Safeguarding of assets.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements. Some effective monitoring controls include:

1. Regular review of monthly financial statements;
2. Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
3. Review of large or unusual fluctuations;
4. Identification of unusual fluctuations;
5. Comparison of financial statement position and operating results;
6. Comparison of predefined key performance indicators based on the financial statements;
7. Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non-payroll transactions);
8. Ensuring that an adequate segregation of duties exists; and
9. Review of monthly bank reconciliation by someone independent of their preparation.

Lack of effective monitoring controls could lead to theft of Village funds, expenditure of funds contrary to the directives of the governing body, undetected errors affecting the monthly bank versus book reconciliations. During our review of the records we noted the following:

1. There was no evidence in 2017 and 2016 that Council approved disbursements prior to being made, nor did they review disbursements after they were made to ensure they were accurately recorded, necessary and for a proper public purpose. Additionally, Council authorized the Clerk/Treasurer to pay certain bills without needing Council approval.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-004 – Noncompliance/Material Weakness (continued)

2. No one independent of the purchasing process reviewed the activity to ensure the accuracy, appropriateness, or allowability of the disbursements. In 2016, checks were typically only signed by one authorized signatory. The checks only being signed by one person in conjunction with the lack of Council monitoring and segregation of duties which could lead to unallowable disbursements and increase the risk of theft/fraud.
3. No evidence of Council’s or management’s monitoring controls over the monthly and annual financial statements and the revenue and expenditures cycles nor adequate segregation of duties exists.
4. No evidence of Council’s review of the monthly bank reconciliations; and
5. The Village’s minute records were not complete and did not include all relevant information.

The Village lacked procedures to help ensure required records are maintained. The lack of record keeping greatly increases the risk of misstatement, fraud and abuse related to non-payroll and payroll disbursements and receipt transactions. These weaknesses significantly reduce management’s ability to effectively monitor the finances and make appropriate operating decisions.

We recommend the Village improve internal controls over reporting. All payments should be approved by the Council before being made. Receipts and disbursements should be reconciled to the bank deposits, customer ledgers, and financial ledgers on a monthly basis. Supporting documentation should be available to document the reconciliation. Bank reconciliations should be monitored by Council and initialed to indicate their review.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-005 – Noncompliance

Annual Appropriation Measure

Ohio Rev. Code Section 5705.38 requires, in part, that on or about the first day of the fiscal year, an appropriation measure be passed. Ohio Rev. Code Section 5705.41(B) state that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village Council did not adopt an appropriation measure in 2016 and since disbursements should be limited by the appropriations established for each fund, all disbursements made by the Village (\$348,894 in 2016) were not in compliance with Ohio Rev. Code Section 5705.41(B).

Expenditures exceeded appropriations in the following funds during 2017: General, Street, State Highway, Police Salary, EMS, Recreation and Sewer Enterprise which is not in compliance with Ohio Rev. Code Section 5705.41(B).

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-005 – Noncompliance (continued)

Failure to pass an appropriation measure, which serves as a tool by which disbursements can be monitored, could result in overspending. The Village should pass an appropriation measure as required to help ensure disbursements can be monitored and compliance with the Ohio Rev. Code provisions can be attained. Disbursements should be limited to Council approved appropriations for each fund.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-006 – Noncompliance

Certification of Available Resources

Ohio Rev. Code Section 5705.36 states that on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

Ohio Revised Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total estimated resources.

The Village Clerk/Treasurer did not file a certificate showing the total amount from all sources available for expenditures and the balances existing at the end of the year with the county auditor for 2017 or 2016. Failure to file the certificate resulted in appropriations exceeding the amounts of available resources for 2017 which is not in compliance with Ohio Rev. Code Section 5705.39. The Village Clerk/Treasurer should certify to the county auditor the total amount from all sources to establish the limits for Council approved appropriations.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-007 – Noncompliance/Material Weakness

Records Retention

Ohio Rev. Code Section 149.351 establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code Sections 149.38 to 149.42.

The Village Clerk/Treasurer did not retain records in accordance with the aforementioned provisions. Various items such as vouchers, invoices, purchase orders, reconciliations, mayor's court records, and water department ledgers had been lost or destroyed and were not available for inspection.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-007 – Noncompliance/Material Weakness (continued)

The elected officials and employees should maintain all records as required by the Ohio Revised Code.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-008 – Noncompliance

Default on Debt

On January 6, 1992 the Village passed Ordinance 92.01 stating the Village would (1) impose and collect such rates and charges to ensure gross revenue would be sufficient at all times to provide for the payment of the operating and maintenance thereof and the installment payments on the bond; (2) establish and maintain required funds; (3) to adhere to covenant stating that the pledge of those revenue shall be from the date of the ordinance and shall be valid and binding; (4) to provide evidence of current and adequate insurance coverage; and (5) to maintain complete books and records, herein created as set forth in Sections 4,5,6,7,8,10,11 and 18.

In addition, Section 8 of this Ordinance requires \$536 per month to be set aside and deposited into the Sanitary Sewer System Reserve fund until there is accumulated in such fund the sum of \$64,320 after which no further deposits will need to be made except to replace withdrawals. In addition, the loan agreement requires that the Clerk/Treasurer be bonded in the amount of \$130,000.

The Village did not make the required deposits into the Sanitary Sewer Debt Reserve account for 2017 or 2016. In addition, the ending balance in this fund for each year was (\$94,870). In addition, the Village Clerk/Treasurers were not adequately bonded. They were bonded for \$100,000 and \$35,000 in 2016 and 2017, respectively, rather than the \$130,000 required by the debt agreement.

The Village failed to make the payment due in January 2015 and defaulted on the debt. No payments were made on this debt in 2016 or 2017. They also have failed to maintain complete books and records. As a result, the loan has been accelerated and the entire portion was deemed due by the United States Department of Agriculture on September 1, 2015. The Village does not have sufficient funds to repay the debt.

In 2017, the Village sold its sewer assets to Jefferson County to better serve the residents of the Village. As a part of this agreement, the Village's outstanding debt was completely discharged. We recommend that the Village implement procedures to ensure that all required debt covenants will be upheld in the future. Including taking the necessary steps to ensure the Clerk/Treasurer is adequately bonded.

Management Response:

See Corrective Action Plan.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-009 – Noncompliance/Material Weakness

Mayor’s Court Activities

Ohio Rev. Code Section 733.40 provides that except as otherwise provided in section 4511.193 of the Revised Code, all fines, forfeitures, and costs in ordinance cases and all fees that are collected by the mayor, that in any manner come into the mayor's hands, or that are due the mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all money received by the mayor for the use of the municipal corporation shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury. Except as otherwise provided by section 307.515 or 4511.19 of the Revised Code, all fines, and forfeitures collected by the mayor in state cases, together with all fees and expenses collected that have been advanced out of the county treasury, shall be paid by the mayor to the county treasury on the first business day of each month. Except as otherwise provided by section 307.515 or 4511.19 of the Revised Code, the mayor shall pay all court costs and fees collected by the mayor in state cases into the municipal treasury on the first business day of each month.

Monies collected for fines, forfeitures, and cost in ordinances cases were deposited into the Village Mayor's Court checking account as collected. Monthly reports to Council were not prepared and presented to show the total collected, the amount due to Village general fund and the amount due the State Treasury. Although the Village was paying fines into the Village accounts, at December 31, 2017, the Mayor's Court Agency fund had a balance of \$46,542. This is the result of several years of fines being collected and not paid out to the appropriate authorities. The balance in this fund is due to the Village General fund and the Ohio Treasurer of State.

The Village should take the steps necessary to determine what portion of the balance of the Mayor's Court agency fund is due to the Village General Fund and what portion is due to the Treasurer of State. The amounts should then be remitted to the appropriate entities.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-010 – Noncompliance/Material Weakness

Deficit Fund Balances

Ohio Rev. Code Section 5705.10(I) states that all money paid into a fund must be used for the purpose for which such fund has been established. A negative balance indicates that money from another fund or funds has been used to pay the obligations of the funds with deficit cash balances.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-010 – Noncompliance/Material Weakness (continued)

As of December 31, 2017, the following funds had deficit cash balances:

| <u>Fund</u> | <u>Deficit Balance</u> |
|---|------------------------|
| Street Construction, Maintenance and Repair | \$126,452 |
| Police Salary | \$351,797 |
| Police Protection | \$170,182 |
| Water Revenue | \$76,152 |
| Recreation | \$2,169 |
| Cemetery Operating | \$5,011 |
| Canine | \$3,429 |
| Debt Reserve | \$94,870 |

As of December 31, 2016, the following funds had deficit cash balances:

| <u>Fund</u> | <u>Deficit Balance</u> |
|---|------------------------|
| Street Construction, Maintenance and Repair | \$142,727 |
| Police Salary | \$361,005 |
| Police Protection | \$175,112 |
| Water Revenue | \$76,152 |
| Recreation | \$4,444 |
| Cemetery Operating | \$7,896 |
| Canine | \$3,429 |
| Debt Reserve | \$94,870 |

The Clerk/Treasurer should monitor all fund balances closely and should notify Council immediately if a fund is getting near a deficit level. The deficit balances should be examined by Village management and options should be considered to help prevent deficit spending.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-011 – Material Weakness

Cash Reconciliations

The reconciliation of the accounting records to the cash (bank) balances is the most basic and primary control process performed by the Treasurer of an organization. Lack of completing an accurate and timely reconciliation allows for accounting errors, theft and fraud to occur without timely detection. The Clerk/Treasurer is responsible for reconciling the Village's book (fund) balance to the total bank balance on a monthly basis.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-011 – Material Weakness (continued)

The Village lacked procedures to help ensure reconciliations were performed accurately and timely. During our examination of the Village's cash reconciliation process, we noted during 2017 and 2016 monthly cash reconciliations were not completed, which required a reconstruction of monthly reconciliations by Local Government Services (LGS). The lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle.

The Clerk/Treasurer should maintain all bank statements and supporting documentation and prepare the monthly cash reconciliations to ensure the financial records reconcile to the bank balance. These monthly bank reconciliations should be approved by the Village Council each month.

Management Response:

See Corrective Action Plan.

Finding Number: 2017-012 – Noncompliance

Fiscal Officer's Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a 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 expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now Certificates" – If the fiscal officer can certify that both at the time that contract or order was made ("then") and at the time that the fiscal officer was completing the certification ("now"), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution 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 Village.

Village of Smithfield
Jefferson County
Schedule of Findings
December 31, 2017 and 2016

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| Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued) |
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Finding Number: 2017-012 – Noncompliance (continued)

2. Blanket Certificates - Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by ordinance or resolution adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates 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.

3. Super Blanket Certificates – The Village may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession 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.

The Village did not make the proper certification of funds for any disbursements tested during the audit period.

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 Village’s expenditures exceeding budgetary spending limitations, we recommend that the Village certify expenditures prior to incurring the liability. Also, we recommend the Village only use “then and now” certificates for items under \$3,000 and to have all certificates approved by Council. This will assist in keeping adequate controls over disbursements and encumbrances.

Management Response:

See Corrective Action Plan.

Village of Smithfield
Jefferson County
Schedule of Prior Audit Findings
(Prepared by Management)
December 31, 2017 and 2016

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|---|----------------------|--|
| 2015-001 | Finding for Recovery – Salary Overpayment | Not corrected. | The Village is in the process of submitting a claim to the bonding agent. |
| 2015-002 | Ohio Rev. Code Section 733.28 | Not corrected. | The Village has hired a number of fiscal officers during the audit period to correct this however, only the current fiscal officer hired in 2017 has been able to properly record all financial activity of the Village. |
| 2015-003 | Ohio Admin. Code Sections 117-2-00(A) and 117-2-02(D) | Not corrected. | The Village has utilized UAN as its accounting software but has not entered all transactions into the system correctly or in a timely manner. |
| 2015-004 | Ohio Admin. Code Section 117-2-01(A) | Not corrected. | The Village is in the process of creating internal controls to properly achieve its financial goals. |
| 2015-005 | Ohio Rev. Code Section 145.47 | Partially corrected. | The Village has repaid all outstanding withholdings and matching amounts through 2017 however, the withholdings in 2016 were not withheld at the proper rates for all employees. |
| 2015-006 | 26 USC Sections 3102 and 3402 | Partially corrected. | The Village has repaid all outstanding withholdings and matching amounts through 2017 however, the withholdings in 2016 were not withheld at the proper rates for all employees. |
| 2015-007 | Ohio Rev. Code Section 5747.06 | Partially corrected. | The Village has repaid all outstanding withholdings and matching amounts through 2017 however, the withholdings in 2016 were not withheld at the proper rates for all employees. |
| 2015-008 | Ohio Rev. Code Sections 5705.38 and 5705.41(B) | Partially corrected. | The Village fiscal officers prepared annual appropriations in 2016, but they were not formally approved by Council. Appropriations were prepared and approved in 2017. |

Village of Smithfield
Jefferson County
Schedule of Prior Audit Findings (continued)
(Prepared by Management)
December 31, 2017 and 2016

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| 2015-009 | Ohio Rev. Code Section 5705.36 | Not corrected. | The Village fiscal officers prepared a listing of estimated receipts but did not prepare or certify available resources to the County Auditor during the audit period. The current fiscal officer is aware of this requirement. |
| 2015-010 | Ohio Rev. Code Section 149.351 | Not corrected. | The Village is in the process of creating internal controls to ensure that all records are properly stored and organized. |
| 2015-011 | Village Ordinance 92.01 | Not corrected. | The Village transferred the assets collateralizing the defaulted loan and discharged the outstanding loan balance as a part of the transfer agreement. |
| 2015-012 | Ohio Rev. Code Section 733.40 | Not corrected. | The Village has had issues with its mayor's court software and has not been able to trace the amounts of fees not remitted to the State in previous years. The Village has implemented controls to ensure that all fees currently being charged are remitted to the State. |
| 2015-013 | Ohio Rev. Code Sections 2949.094(A) and 2949.111 | Fully corrected. | |
| 2015-014 | Ohio Rev. Code Section 5705.10(I) | Not corrected. | The Village has substantial deficit fund balances from previous years. The Village is working to eliminate the deficit fund balances by reallocating where expenses are posted when possible and implementing new revenue streams. |
| 2015-015 | Mispostings and Misclassifications | Not corrected. | The Village has hired a number of fiscal officers during the audit period with varying levels of expertise. The Village is currently working to ensure all postings are properly posted and classified. |
| 2015-016 | Cash Reconciliations | Not corrected. | The Village hired a number of fiscal officers who were unable to complete the monthly cash reconciliation |

Village of Smithfield
Jefferson County
Schedule of Prior Audit Findings (continued)
(Prepared by Management)
December 31, 2017 and 2016

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| | | | process satisfactorily. The Village contracted with Local Government Services to reconcile the books after the year was over. |
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Village of Smithfield
Jefferson County
 Corrective Action Plan
 December 31, 2017 and 2016
 (Prepared by Management)

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|-----------------------|---|------------------------------------|--|
| 2017-001 | Use of UAN will correct posting errors | Jan. 31, 2019 | Fiscal Officer George Vudrogovic |
| 2017-002 | This will be corrected with the use of UAN | Jan. 31, 2019 | Fiscal Officer |
| 2017-003 | Using UAN will correct this | Jan. 31, 2019 | Fiscal Officer |
| 2017-004 | Village will set up proper bank reconciliations with councils approval | Jan. 31, 2019 | Fiscal Officer |
| 2017-005 | Appropriations will be passed before Jan. 1 of the coming year. | Dec. 27, 2018 | Fiscal Officer |
| 2017-006 | All proper documents will be filed for 2018 | Jan. 31, 2019 | Fiscal Officer |
| 2017-007 | Village will adopt the Ohio Historical Records Retention Schedule | Mar. 5, 2019 | Fiscal Officer |
| 2017-008 | Village will create a debt covenant review on any future debt entered into by the Village | Mar. 5, 2019 | Fiscal Officer |
| 2017-009 | Village will no longer have Mayor's Court starting Jan.1, 2019 | Jan. 1, 2019 | Fiscal Officer |
| 2017-010 | Deficit fund balance for Water & Sewage will be eliminated in 2019 once we get approval from the Ohio Treasury Dept. Currently working with LGS to rectify the issue. | June 2019 | Fiscal Officer |
| 2017-011 | The Village will create and follow the cash reconciliation process that will be approved by council on a monthly basis. | Jan. 31, 2019 | Fiscal Officer |
| 2017-012 | The Village will use UAN to certify purchase orders during 2018 and in the future. | January 1, 2019 | Fiscal Officer |

OHIO AUDITOR OF STATE
KEITH FABER



VILLAGE OF SMITHFIELD

JEFFERSON 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
APRIL 2, 2019**