



Mary Taylor, CPA
Auditor of State

**SMITH TOWNSHIP
BELMONT COUNTY**

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Mary Taylor, CPA

Auditor of State

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

To the Board of Trustees:

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 16, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Smith Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Smith Township, Belmont County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

July 16, 2007

**SMITH TOWNSHIP
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:					
Local Taxes	\$14,947	\$122,710	\$	\$	\$137,657
Intergovernmental	64,008	138,235			202,243
Earnings on Investments	3,892	1,963	34	246	6,135
Other Revenue	<u>5,750</u>	<u>21,243</u>			<u>26,993</u>
Total Cash Receipts	<u>88,597</u>	<u>284,151</u>	<u>34</u>	<u>246</u>	<u>373,028</u>
Cash Disbursements:					
Current:					
General Government	56,042				56,042
Public Safety		69,219			69,219
Public Works	7,486	223,206			230,692
Health	5,668				5,668
Debt Service:					
Redemption of Principal	9,699	27,482			37,181
Interest and Fiscal Charges	597	1,194			1,791
Capital Outlay	<u>48,983</u>	<u>686</u>	<u>28,000</u>		<u>77,669</u>
Total Cash Disbursements	<u>128,475</u>	<u>321,787</u>	<u>28,000</u>	<u>0</u>	<u>478,262</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(39,878)</u>	<u>(37,636)</u>	<u>(27,966)</u>	<u>246</u>	<u>(105,234)</u>
Other Financing Receipts/Disbursements:					
Proceeds from Sale of Public Debt:					
Sale of Notes	48,983				48,983
Other Uses				(27)	(27)
Total Other Financing Receipts/Disbursements	<u>48,983</u>	<u>0</u>	<u>0</u>	<u>(27)</u>	<u>48,956</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	9,105	(37,636)	(27,966)	219	(56,278)
Fund Cash Balances, January 1	<u>30,318</u>	<u>225,477</u>	<u>28,280</u>	<u>34,322</u>	<u>318,397</u>
Fund Cash Balances, December 31	<u>\$39,423</u>	<u>\$187,841</u>	<u>\$314</u>	<u>\$34,541</u>	<u>\$262,119</u>

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:					
Local Taxes	\$14,132	\$116,975	\$	\$	\$131,107
Intergovernmental	64,563	243,806			308,369
Earnings on Investments	1,123	360		164	1,647
Other Revenue	<u>1,700</u>	<u>13,975</u>			<u>15,675</u>
Total Cash Receipts	<u>81,518</u>	<u>375,116</u>	<u>0</u>	<u>164</u>	<u>456,798</u>
Cash Disbursements:					
Current:					
General Government	55,580				55,580
Public Safety		82,452			82,452
Public Works	4,894	188,460			193,354
Health	7,690				7,690
Human Services		24,619			24,619
Debt Service:					
Redemption of Principal	10,125	27,482			37,607
Interest and Fiscal Charges	685	2,183			2,868
Capital Outlay		<u>726</u>			<u>726</u>
Total Cash Disbursements	<u>78,974</u>	<u>325,922</u>	<u>0</u>	<u>0</u>	<u>404,896</u>
Total Cash Receipts Over Cash Disbursements	2,544	49,194	0	164	51,902
Fund Cash Balances, January 1	<u>27,774</u>	<u>176,283</u>	<u>28,280</u>	<u>34,158</u>	<u>266,495</u>
Fund Cash Balances, December 31	<u>\$30,318</u>	<u>\$225,477</u>	<u>\$28,280</u>	<u>\$34,322</u>	<u>\$318,397</u>

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Smith Township, Belmont County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township pays the Smith Township Volunteer Fire Department, to provide fire services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

The Township values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Fire Levy Fund – This fund receives property tax money to provide fire protection services.

3. Capital Project Funds

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

Miscellaneous Capital Equipment Fund - The Township has accumulated resources in this fund to provide for a down payment on the purchase of a new truck to be used for Township road maintenance.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant Permanent Fund:

The Township's Permanent Fund is for the general maintenance and upkeep of Scatterday Hill Cemetery and Wesley Chapel Cemetery.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

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

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	<u>2006</u>	<u>2005</u>
Demand deposits	\$252,590	\$280,940
Passbook savings account	2,822	2,236
Certificates of deposit	<u>6,707</u>	<u>35,221</u>
Total deposits	<u>\$262,119</u>	<u>\$318,397</u>

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005, follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,225	\$137,580	\$55,355
Special Revenue	237,717	284,151	46,434
Capital Projects	475	34	(441)
Permanent	0	246	246
Total	\$320,417	\$422,011	\$101,594

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$93,217	\$128,475	(\$35,258)
Special Revenue	411,101	321,787	89,314
Capital Projects	36,887	28,000	8,887
Permanent	0	27	(27)
Total	\$541,205	\$478,289	\$62,916

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$81,735	\$81,518	(\$217)
Special Revenue	253,229	375,116	121,887
Capital Projects	650	0	(650)
Permanent	0	164	164
Total	\$335,614	\$456,798	\$121,184

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$87,627	\$78,974	\$8,653
Special Revenue	383,319	325,922	57,397
Capital Projects	28,280	0	28,280
Total	\$499,226	\$404,896	\$94,330

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in several funds at the function/object level for the years ended December 31, 2006 and 2005.

Also contrary to Ohio law, during 2006 the Township Trustees did not obtain an amended certificate or amend appropriations for debt issued and expended on-behalf of the Township in the amount of \$48,983.

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2006, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note - Community Center	\$21,295	3.38%
Lease/Purchase Agreement	48,983	5.44%
Total	<u>\$70,278</u>	

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

In 2006, the Township entered into a lease/purchase agreement to finance a portion of the purchase of a new International Truck for Township road maintenance. The Township's taxing authority collateralized the lease.

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. DEBT (Continued)

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

Year ending December 31:	Promissory Note - Community Center	Lease/ Purchase Agreement
2007	\$21,603	\$12,325
2008		11,377
2009		11,377
2010		11,377
2011		9,481
Total	<u>\$21,603</u>	<u>\$55,937</u>

6. RETIREMENT SYSTEM

The Township's 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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

Risk Pool Membership

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

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

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

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$11,068. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

<u>Contributions to OTARMA</u>	
2004	\$5,467
2005	\$5,539
2006	\$5,534

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal. The Township is exposed to various risks of property and casualty losses, and injuries to employees.

**SMITH TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. CONTINGENT LIABILITIES

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of Smith Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 16, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 and 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 16, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 16, 2007.

We intend this report solely for the information and use of the audit committee, management, and the Board of Township Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

July 16, 2007

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-001

Noncompliance and Significant Deficiency

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

The Township appropriates at the fund/function/object level. We noted the following instances where expenditures exceeded appropriations as of December 31, 2006:

Fund/Line Item	Appropriations Approved	Actual Expenditures	Expenditures in Excess of Appropriations
General Fund			
General Government			
Salary-Trustees	\$3,502	\$4,733	(\$1,231)
Uniform Accounting Network Fees	1,900	2,130	(230)
Capital Outlay	0	48,983	(48,983)
Fire Fund			
Public Safety			
Payment to Another Political Subdivision	62,400	67,959	(5,559)
Federal Emergency Management Agency (FEMA) Fund (2902)			
Public Works			
Contracted Services	0	50,966	(50,966)

We noted the following instances where expenditures exceeded appropriations as of December 31, 2005:

Fund/Line Item	Appropriations Approved	Actual Expenditures	Expenditures in Excess of Appropriations
General Fund			
General Government			
Salary-Trustees	\$1,000	\$3,532	(\$2,532)
Other-Professional & Technical Svcs.	3,800	4,592	(792)
Fire Fund			
Public Safety			
Payment to Another Political Subdivision	70,700	81,118	(10,418)

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-001 (Continued)

Noncompliance and Significant Deficiency - Ohio Rev. Code Section 5705.41(B) (Continued)

To help ensure Township Trustees are not making expenditures in excess of appropriations, we recommend the Township Trustees and Township Clerk compare expenditures to appropriations at the legal level of control, in this case at the fund/function/object level, on a monthly basis. If appropriations in addition to those already adopted will be needed, then Township Trustees should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. After obtaining Township Trustee approval for appropriations, a certification should be obtained from the County Budget Commission that appropriations do not exceed the estimated resources. The Township Clerk and the Township Trustees should not make any expenditure until appropriations are available.

FINDING NUMBER 2006-002

Noncompliance and Significant Deficiency

Ohio Administrative Code Section 117-2-02 (A) provides that all local public offices should 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.

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

Ohio Rev. Code Section 5705.40 requires that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The Board of Trustees entered into a \$48,983 lease/purchase agreement during 2006 for the purpose of partially financing the purchase of a truck. The financial institution which purchased the lease made the check payable directly to the vendor. The Township Clerk did not post the debt proceeds and the capital outlay expenditure to its financial records. As a result, receipts and disbursements were understated on the Township's financial records and financial statements for 2006.

Additionally, the Township Clerk did not obtain an amended certificate for the proceeds of the lease, nor did the Township Trustees amend their appropriations for the purchases of the truck.

Adjustments with which the Board of Trustees' agree are reflected in the accompanying financial statements. This also resulted in violation of Ohio Rev. Code Section 5705.41 (B) within the General Fund as this activity was not budgeted by the Township Trustees. (See Finding No. 2006-001).

We recommend the Township Clerk record all debt proceeds and the corresponding expenditures in the Township's books.

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

**Noncompliance and Significant Deficiency - Ohio Administrative Code Section 117-2-02 (A)
(Continued)**

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

**SMITH TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.36(A)(3), the Township did not obtain an increased amended certificate when needed and did not always post budgeted receipts accurately to the computer system.	No	Partially Corrected; Reissued as Finding No. 2006-002 and reissued as a management letter comment.
2004-002	Ohio Rev. Code Section 5705.40, certain appropriation amendments were not presented to the Township Trustees for approval.	No	Partially Corrected; Reissued as a management letter comment.
2004-003	Ohio Rev. Code Section 5705.41(B), several Township funds had expenditures which exceeded appropriations.	No	Not Corrected; Reissued as Finding No. 2006-001.
2004-004	Ohio Rev. Code Section 5705.41(D), not always obtaining certification of availability of funds prior to incurring an obligation.	No	Partially Corrected; Reissued as a management letter comment.



Mary Taylor, CPA
Auditor of State

SMITH TOWNSHIP

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 2, 2007**