



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

March 30, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**SMITH TOWNSHIP
MAHONING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Smith Township
Mahoning County
846 N Johnson Road
Sebring, Ohio 44762

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith Township, Mahoning County, Ohio (the Township), as of and for the year ended December 31, 2005, which collectively comprises the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. 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 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 that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Smith Township, Mahoning County, Ohio, as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and Police Fund, thereof, for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

January 5, 2007

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

This discussion and analysis of Smith Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2005, within the limitations of the Township's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$ 9,495, or 2 percent. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2005; however, cost increases affected most funds.

The Township's general receipts are primarily property taxes. These receipts represent 65 percent of the total cash received for governmental activities during the year. Property tax receipts for 2005 changed very little compared to 2004 as development within the Township has slowed.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental-type activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other non-financial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations, and the need for continued growth in the major local revenue sources such as property taxes.

The Township reports its governmental activities in the statement of net assets and the statement of activities.

Governmental activities. All of the Township's basic services are reported here, including police, fire, and streets. State grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Township's Most Significant Funds

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are categorized as governmental.

Governmental Funds - All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds were the General Fund and the Police Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2005 compared to 2004 on a cash basis of accounting:

(Table 1)

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$513,626	\$523,121
Total Assets	\$513,626	\$523,121
Net Assets		
Restricted for:		
Other Purposes	\$305,520	\$273,426
Unrestricted	208,106	249,695
Total Net Assets	\$513,626	\$523,121

As mentioned previously, net assets of governmental activities decreased \$ 9,495 or 2 percent during 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- Central Waste Landfill was closed, therefore, the Township lost General Fund revenues.
- Increases in salaries from one percent or 10 cents per hour based on negotiated agreements.
- The Township had several streets that were in very poor condition that needed extensive repairs costing in excess of \$10,000.
- Health benefit costs grew substantially as premium rates increased.

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

Table 2 reflects the changes in net assets in 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$61,531
Operating Grants and Contributions	86,731
Total Program Receipts	148,262
General Receipts:	
Property Taxes	532,436
Grants and Entitlements Not Restricted to Specific Programs	117,681
Interest	8,865
Miscellaneous	11,296
Total General Receipts	670,278
Total Receipts	818,540
Disbursements:	
General Government	184,372
Public Safety	424,466
Public Works	170,240
Health	14,375
Capital Outlay	34,016
Other	566
Total Disbursements	828,035
Increase (Decrease) in Net Assets	(9,495)
Net Assets, January 1, 2005	523,121
Net Assets, December 31, 2005	\$513,626

Program receipts represent only 18 percent of total receipts and are comprised of charges for services and grants.

General receipts represent 82 percent of the Township's total receipts, and of this amount, over 79 percent are property taxes. State grants and entitlements make up the other significant general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

General Government represents the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the Board of Trustees, the Fiscal Officer, and internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, these costs are limited to a small percent of General Fund unrestricted receipts.

Public Safety is the cost of police and fire protection; Health is the health department; and Public Works is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for public safety, general government, and public works which account for 51, 22, and 21 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$184,372	\$184,372
Public Safety	424,466	404,858
Public Works	170,240	52,735
Health	14,375	14,375
Other	566	(10,583)
Capital Outlay	34,016	34,016
Total Expenses	<u>\$828,035</u>	<u>\$679,773</u>

The dependence upon property tax receipts and state grants and entitlements are apparent as over 82 percent of governmental activities are supported through these general receipts.

The Township's Funds

Total governmental funds had receipts of \$818,540 and disbursements of \$828,035. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$41,589 as the result of increased costs for salaries and benefits and the loss of Central Waste Landfill revenue plus a drop in personal property tax receipts.

Smith Township
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Unaudited

General Fund Budgeting Highlights

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Township amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$243,653 while actual disbursements were \$203,118. The Township kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$41,589 for 2005.

Capital Assets and Debt Administration

Capital Assets

The Township does not currently keep track of its capital assets and infrastructure.

Debt

The Township does not currently have any debt.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base.

Contacting the Township's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mary Winters, Fiscal Officer, Smith Township, 846 N. Johnson Road. Sebring, OH 44672.

Smith Township
Mahoning County
Statement of Net Assets - Cash Basis
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$513,626</u>
<i>Total Assets</i>	<u><u>\$513,626</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$305,520
Unrestricted	<u>208,106</u>
<i>Total Net Assets</i>	<u><u>\$513,626</u></u>

See accompanying notes to the basic financial statements

Smith Township
Mahoning County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities				
General Government	\$184,372			(\$184,372)
Public Safety	424,466	\$17,445	\$2,163	(404,858)
Public Works	170,240	32,937	84,568	(52,735)
Health	14,375			(14,375)
Other	566	11,149		10,583
Capital Outlay	34,016			(34,016)
<i>Total Governmental Activities</i>	<u>828,035</u>	<u>61,531</u>	<u>86,731</u>	(679,773)
		General Receipts		
		Property Taxes Levied for:		
		General Purposes		532,436
		Grants and Entitlements not Restricted to Specific		117,681
		Interest		8,865
		Miscellaneous		11,296
		<i>Total General Receipts</i>		670,278
		Change in Net Assets		(9,495)
		<i>Net Assets Beginning of Year</i>		<u>523,121</u>
		<i>Net Assets End of Year</i>		<u>\$513,626</u>

See accompanying notes to the basic financial statements

Smith Township
Mahoning County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Police Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$208,106	\$161,826	\$143,694	\$513,626
<i>Total Assets</i>	<u>\$208,106</u>	<u>\$161,826</u>	<u>\$143,694</u>	<u>\$513,626</u>
Fund Balances				
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	\$208,106			\$208,106
Special Revenue Funds		\$161,826	\$143,694	305,520
<i>Total Fund Balances</i>	<u>\$208,106</u>	<u>\$161,826</u>	<u>\$143,694</u>	<u>\$513,626</u>

See accompanying notes to the basic financial statements

**Smith Township
Mahoning County**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds*

For the Year Ended December 31, 2005

	General	Police Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$56,652	\$351,072	\$124,711	\$532,435
Licenses, Permits and Fees	11,149	410		11,559
Fines and Forfeitures		12,348	4,687	17,035
Intergovernmental	83,511	41,485	112,354	237,350
Interest	7,429		1,436	8,865
Other	2,788	7,550	958	11,296
<i>Total Receipts</i>	<u>161,529</u>	<u>412,865</u>	<u>244,146</u>	<u>818,540</u>
Disbursements				
Current:				
General Government	184,372			184,372
Public Safety		372,784	51,682	424,466
Public Works	4,371		165,869	170,240
Health	14,375			14,375
Other			566	566
Capital Outlay		16,121	17,895	34,016
<i>Total Disbursements</i>	<u>203,118</u>	<u>388,905</u>	<u>236,012</u>	<u>828,035</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(41,589)</u>	<u>23,960</u>	<u>8,134</u>	<u>(9,495)</u>
Other Financing Sources (Uses)				
Advances In	2,000		2,000	4,000
Advances Out	(2,000)		(2,000)	(4,000)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(41,589)	23,960	8,134	(9,495)
<i>Fund Balances Beginning of Year</i>	<u>249,695</u>	<u>137,866</u>	<u>135,560</u>	<u>523,121</u>
<i>Fund Balances End of Year</i>	<u>\$208,106</u>	<u>\$161,826</u>	<u>\$143,694</u>	<u>\$513,626</u>

See accompanying notes to the basic financial statements

Smith Township
Mahoning County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$55,000	\$55,000	\$56,652	\$1,652
Licenses, Permits and Fees	1,000	10,000	11,149	1,149
Intergovernmental	104,989	104,989	83,511	(21,478)
Interest	4,000	4,000	7,429	3,429
Other	500	500	2,788	2,288
<i>Total receipts</i>	<u>165,489</u>	<u>174,489</u>	<u>161,529</u>	<u>(12,960)</u>
Disbursements				
Current:				
General Government	174,226	189,548	184,372	5,176
Public Works	24,000	17,005	4,371	12,634
Health	17,100	17,100	14,375	2,725
Capital Outlay	20,000	20,000	0	20,000
<i>Total Disbursements</i>	<u>235,326</u>	<u>243,653</u>	<u>203,118</u>	<u>40,535</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(69,837)</u>	<u>(69,164)</u>	<u>(41,589)</u>	<u>27,575</u>
Other Financing Sources (Uses)				
Advances In		2,000	2,000	0
Advances Out		(2,000)	(2,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(69,837)</u>	<u>(69,164)</u>	<u>(41,589)</u>	<u>27,575</u>
<i>Fund Balance Beginning of Year</i>	249,368	249,368	249,368	0
Prior Year Encumbrances Appropriated	327	327	327	0
<i>Fund Balance End of Year</i>	<u>\$179,858</u>	<u>\$180,531</u>	<u>\$208,106</u>	<u>\$27,575</u>

See accompanying notes to the basic financial statements

**Smith Township
Mahoning County**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis*

Police Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$320,000	\$320,000	\$351,072	\$31,072
Licenses, Permits and Fees	400	400	410	10
Fines and Forfeitures	13,000	13,000	12,348	(652)
Intergovernmental	32,000	32,000	41,485	9,485
Other	0	0	7,550	7,550
<i>Total receipts</i>	<u>365,400</u>	<u>365,400</u>	<u>412,865</u>	<u>47,465</u>
Disbursements				
Current:				
Public Safety	385,134	386,693	372,784	13,909
Capital Outlay	26,000	26,000	16,121	9,879
<i>Total Disbursements</i>	<u>411,134</u>	<u>412,693</u>	<u>388,905</u>	<u>23,788</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(45,734)</u>	<u>(47,293)</u>	<u>23,960</u>	<u>71,253</u>
Other Financing Sources (Uses)				
Other Financing Uses	(2,000)	(2,000)	0	2,000
<i>Total Other Financing Sources (Uses)</i>	<u>(2,000)</u>	<u>(2,000)</u>	<u>0</u>	<u>2,000</u>
<i>Net Change in Fund Balance</i>	(47,734)	(49,293)	23,960	73,253
<i>Fund Balance Beginning of Year</i>	136,307	136,307	136,307	0
Prior Year Encumbrances Appropriated	1,559	1,559	1,559	0
<i>Fund Balance End of Year</i>	<u>\$90,132</u>	<u>\$88,573</u>	<u>\$161,826</u>	<u>\$73,253</u>

See accompanying notes to the basic financial statements

Note 1 – Reporting Entity

The Smith Township, Mahoning County, Ohio (the Township), is a body politic and corporate established in 1803 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with the Villages of Beloit and Sebring for fire protection and ambulance services. Police protection is provided by the Township.

B. Component Units

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township. The Township has no component units.

The Township participates in the Ohio Government Risk Management Plan, a public entity shared risk pool. This organization is presented in Note 7 to the financial statements.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Note 2 – Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the Township. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions.

The statement of net assets presents the cash balance, of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Township are classified as governmental.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are the General Fund and the Police Fund.

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Police District Fund – The Police District Fund receives property tax monies to finance operations of the police department.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Township's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively. The Township had no investments.

Note 2 – Summary of Significant Accounting Policies (Continued)

During 2005, the Township invested in nonnegotiable certificates of deposit, and a business savings account. The nonnegotiable certificates of deposit and the business savings account are reported at cost. Interest earnings are allocated to Township funds according to State statutes. Interest receipts credited to the General Fund during 2005 was \$7,429 which includes \$4,457 assigned from other Township funds.

F. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Township did not have any restricted assets at December 31, 2005.

G. Inventory and Prepaid Items

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's cash basis of accounting.

All full-time employees who work an 80 hour pay period earn sick leave at the rate of 4.8 hours per pay period, and is compensated at their regular rate for sick leave used when absent due to illness. An employee who retires and meets the age and length of service requirements of the Ohio Public Employees Retirement System (OPERS) and who was also in service in the Township for a period of ten (10) continuous years prior to retirement may redeem 25% of his or her accumulated sick leave with a maximum cash out of 240 hours.

K. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for road maintenance, police protection, and fire protection. The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Change in Basis of Accounting

Last year the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Township has implemented the cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

The Township has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Township.

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statements of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Police Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The Township had no outstanding encumbrances at year end.

Note 5 – Deposits and Investments

Monies held by the Township are classified by State statute into three categories.

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

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

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

Note 5 - Deposits and Investments(Continued)

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. The Township had no investments during 2005.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$448,696 of the Township's bank balance of \$548,696 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Smith Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percent of true value.

Tangible personal property tax receipts received in 2005 represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004 on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Township operations for the year ended December 31, 2005 was \$12.80 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property:	
Residential/Agriculture	\$33,979,660
Commercial/Industrial/Mineral	12,261,740
Public Utility Property:	
Real	7,929,260
Tangible Personal Property	5,437,204
Total Assessed Value	<u>\$59,607,864</u>

Note 7 – Risk Management

Public Entity Risk Pool Membership

The Township belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage's, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

Note 7 – Risk Management (Continued)

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005:

	2005	2004
Assets	\$8,219,430	\$6,685,522
Liabilities	(2,748,639)	(2,227,808)
Members' Equity	\$5,470,791	\$4,457,714

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Note 8 – Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer, defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The Township's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement. For those classifications, the Township's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

Note 8 – Defined Benefit Pension Plan (Continued)

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$88,357.30, \$82,602.36, and \$73,217.32 respectively; the full amount has been contributed for 2005, 2004 and 2003. No contributions were made to member direct plans.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll, (16.7 percent for law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 and 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual Township contributions for 2005 which were used to fund postemployment benefits were \$22,080. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

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Auditor of State Betty Montgomery

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

Smith Township
Mahoning County
846 North Johnson Road
Sebring, Ohio 44672

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith Township (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated January 5, 2007 wherein we 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

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

Betty Montgomery
Auditor of State

January 5, 2007



Mary Taylor, CPA
Auditor of State

SMITH TOWNSHIP
MAHONING 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 5, 2007