



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503

Telephone 330-797-9900
800-443-9271

Facsimile 330-797-9949

REPORT OF INDEPENDENT ACCOUNTANTS

Smith Township
Mahoning County
846 N. Johnson Road
Sebring, Ohio 44672

To the Township Trustees:

We have audited the accompanying financial statements of Smith Township, Mahoning County, Ohio, (the Township) as of and for the years ended December 31, 1999 and 1998. 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2000, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

This report is intended solely for the information and use of management, the Township Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

June 15, 2000

SMITH TOWNSHIP
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Fiduciary Funds</u>	
Cash Receipts:					
Local Taxes	\$46,709	\$286,509	\$14,951		\$348,169
Intergovernmental	106,625	110,609			217,234
Licenses, Permits, and Fees	47,674	1,748			49,422
Fines, Forfeitures, and Penalties		24,816			24,816
Earnings on Investments	8,807	629			9,436
Other Revenue	4,269	13,430			17,699
	<u>214,084</u>	<u>437,741</u>	<u>14,951</u>		<u>666,776</u>
Cash Disbursements:					
Current:					
General Government	85,690				85,690
Public Safety	8,087	342,688			350,775
Public Works	103,270	135,438			238,708
Health	13,062				13,062
Debt Service:					
Redemption of Principal			14,500		14,500
Interest and Fiscal Charges			452		452
Capital Outlay	11,000	17,140			28,140
	<u>221,109</u>	<u>495,266</u>	<u>14,952</u>		<u>731,327</u>
Total Cash Disbursements	<u>221,109</u>	<u>495,266</u>	<u>14,952</u>		<u>731,327</u>
Total Receipts Over/(Under) Disbursements	<u>(7,025)</u>	<u>(57,525)</u>	<u>(1)</u>		<u>(64,551)</u>
Other Financing Receipts/(Disbursements):					
Advances-In	127,952	165,000	14,952		307,904
Advances-Out	(179,952)	(113,000)	(14,952)		(307,904)
	<u>(52,000)</u>	<u>52,000</u>			
Total Other Financing Receipts/(Disbursements)	<u>(52,000)</u>	<u>52,000</u>			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(59,025)	(5,525)	(1)		(64,551)
Fund Cash Balances, January 1	187,446	107,392	2	19,890	314,730
Fund Cash Balances, December 31	<u>\$128,421</u>	<u>\$101,867</u>	<u>\$1</u>	<u>\$19,890</u>	<u>\$250,179</u>

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

**SMITH TOWNSHIP
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Governmental Fund Types</u>					Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Fiduciary Funds</u>	
Cash Receipts:						
Local Taxes	\$46,025	\$277,280	\$23,132			\$346,437
Intergovernmental	104,232	178,843		22,655		305,730
Charges for Services		6,000				6,000
Licenses, Permits, and Fees	46,233	1,310				47,543
Fines, Forfeitures, and Penalties		19,717				19,717
Earnings on Investments	12,861	486				13,347
Other Revenue	11,871	7,884			20,000	39,755
Total Cash Receipts	<u>221,222</u>	<u>491,520</u>	<u>23,132</u>	<u>22,655</u>	<u>20,000</u>	<u>778,529</u>
Cash Disbursements:						
Current:						
General Government	96,327					96,327
Public Safety	441	335,500				335,941
Public Works	36,296	112,547				148,843
Health	13,108					13,108
Miscellaneous		1,976			20,000	21,976
Debt Service:						
Redemption of Principal			21,850			21,850
Interest and Fiscal Charges			1,650			1,650
Capital Outlay	48,273	33,837		22,655		104,765
Total Cash Disbursements	<u>194,445</u>	<u>483,860</u>	<u>23,500</u>	<u>22,655</u>	<u>20,000</u>	<u>744,460</u>
Total Receipts Over/(Under) Disbursements	<u>26,777</u>	<u>7,660</u>	<u>(368)</u>			<u>34,069</u>
Other Financing Receipts/(Disbursements):						
Advances-In	72,941	65,941	7,000			145,882
Advances-Out	(72,941)	(65,941)	(7,000)			(145,882)
Total Other Financing Receipts/(Disbursements)						
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	26,777	7,660	(368)			34,069
Fund Cash Balances, January 1	160,669	99,731	370		19,890	280,660
Fund Cash Balances, December 31	<u>\$187,446</u>	<u>\$107,391</u>	<u>\$2</u>		<u>\$19,890</u>	<u>\$314,729</u>
Reserve for Encumbrances, December 31	<u>\$14,000</u>					<u>\$14,000</u>

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

**SMITH TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Smith Township, Mahoning County , (the Township) is a body corporate and politic established 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 provides general governmental services, including road and bridge maintenance, and cemetery maintenance. The Township contracts with the City of Sebring to provide fire services and ambulance services.

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

B. Basis of Accounting

These financial statements were prepared on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost. Money market funds are valued at cost.

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 disbursements, respectively.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Police District Fund - This fund receives tax money from a levy for maintaining a police force.

SMITH TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Funds

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

Bond Principal Payment - This fund receives tax monies to pay for the debt payments on the dump truck the Township bought.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Projects Fund:

Issue II Fund - The Township received a grant from the State of Ohio for constructing, maintaining, and repairing Township roads.

5. Fiduciary Funds (Trust and Agency Funds)

These funds are used to account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township had the following significant Fiduciary Fund:

Supplies and Materials - This fund received money from Viking Construction Company that the company posted against damage to the Township roads while Viking did work in the Township. At the end of the project, the Township refunded the monies because no damage had been done to Township roads.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 1999 and 1998 budgetary activity appears in Note 3.

**SMITH TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Township.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>1999</u>	<u>1998</u>
Demand deposits	\$14,986	\$14,530
Certificates of deposit	<u>200,000</u>	<u>200,000</u>
Total deposits	<u>214,986</u>	<u>214,530</u>
Money Market Mutual Fund	<u>35,193</u>	<u>100,199</u>
Total deposits and investments	<u><u>\$250,179</u></u>	<u><u>\$314,729</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, and (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1999, and December 31, 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$161,480	\$214,084	\$52,604
Special Revenue	479,861	437,741	(42,120)
Debt Service	<u>14,952</u>	<u>14,951</u>	<u>(1)</u>
Total	<u><u>\$656,293</u></u>	<u><u>\$666,776</u></u>	<u><u>\$10,483</u></u>

**SMITH TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$338,340	\$221,109	\$117,231
Special Revenue	526,311	495,266	31,045
Debt Service	14,952	14,952	0
Fiduciary	19,890	0	19,890
Total	<u>\$899,493</u>	<u>\$731,327</u>	<u>\$168,166</u>

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$150,756	\$221,222	\$70,466
Special Revenue	523,041	491,520	(31,521)
Debt Service	23,750	23,132	(618)
Capital Projects	30,000	22,655	(7,345)
Fiduciary	0	20,000	20,000
Total	<u>\$727,547</u>	<u>\$778,529</u>	<u>\$50,982</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$301,129	\$208,445	\$92,684
Special Revenue	562,391	483,860	78,531
Debt Service	24,100	23,500	600
Capital Projects	22,655	22,655	0
Fiduciary	19,900	20,000	(100)
Total	<u>\$930,175</u>	<u>\$758,460</u>	<u>\$171,715</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Township Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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.

SMITH TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

5. RETIREMENT SYSTEMS

The Township's law enforcement officers belong to the Public Employees Retirement System Law Enforcement Manual (PERS - Law Enforcement). Other employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS - Law Enforcement and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, members of PERS - Law Enforcement contributed 9% of their wages to the PERS. The Township contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 1999.

6. RISK MANAGEMENT

The Township has obtained commercial insurance for the following risks:

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

The Township also provides health insurance and dental and life coverage to full-time employees through a private carrier.

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503

Telephone 330-797-9900
800-443-9271

Facsimile 330-797-9949

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Smith Township
Mahoning County
846 N. Johnson Road
Sebring, Ohio 44672

To the Township Trustees:

We have audited the financial statements of Smith Township, Mahoning County, Ohio (the Township), as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated June 15, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated June 15, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of findings as item 1999-41150-001.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described previously is not a material weakness. We noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Township in a separate letter dated June 15, 2000.

This report is intended for the information and use of the management and the Township Trustees, and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

June 15, 2000

SCHEDULE OF FINDINGS
SMITH TOWNSHIP
MAHONING COUNTY
DECEMBER 31, 1999 AND 1998

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-41150-001

During our tests of payroll, there were 24 instances out of 52 (46%) where the time cards did not match the time sheets. The employee's supervisor fills out the time sheets from the time cards and then signs off on the time sheets. When there are differences between the time cards and the time sheets, no explanations or documentation was given for the differences. According to the township clerk and one trustee, the employees are paid off the time sheets rather than the time cards. The Township does this because some employees clock in early and/or clock out late and the supervisor determines that they did not actually work the extra time indicated on their time card. However, since the time cards are the source documents for the time sheets, the Township is not utilizing the source documents when computing payroll.

The Township's disregard of the source documents could have adverse effects on the Township's payroll system. Employees are required to punch in when they start working and they are required to punch out when they quit working for the day. The clocking in and out of the employees represents the actual hours the employees have worked for the day, and accordingly what the employees should be paid for. Under the Township's current operating system, management is disregarding the time cards (source documents) and paying employees based on the amount of hours they were authorized (scheduled) or what their supervisor approved them to work for the week. This system does not truly reflect what the employees should be paid. Since there is no documentation for the differences between the time cards and the time sheets, employees should be paid according to their time cards.

This condition could lead to employees punching in after the scheduled start time and not being docked any pay, or punching in before the scheduled start time and not being paid for this extra time. On the other side, the employees could punch out before their scheduled quitting time and not be docked any pay, or punch out after their scheduled quitting time and not be paid for the extra time worked.

To address the above deficiencies, we recommend the following:

1. The Township could discard the time clock and rely on the supervisors to monitor the starting and quitting time of all employees under them.
2. The Township could take a more active role in monitoring the time cards, paying the employees according to the time cards, and/or documenting differences between the time cards and the time sheets. Any differences between the time cards and the time sheets should be carefully documented and signed off by the supervisor.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
AUGUST 3, 2000