



**Auditor of State
Betty Montgomery**

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Clay Township
Montgomery County
8207 Arlington Road
Brookville, Ohio 45309

To the Board of Trustees:

We have audited the accompanying financial statements of Clay Township, Montgomery County, (the Township), as of and for the years ended December 31, 2003 and 2002. 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 *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.

The Township's financial transactions were processed using 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 conduct the audit of 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 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, 2003 and 2002, 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 January 19, 2005, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Clay Township
Montgomery County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of the management, the Board of 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 19, 2005

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$39,779	\$661,310		\$701,089
Intergovernmental	122,370	157,578	\$687,776	967,724
Special Assessments		1,239		1,239
Charges for Services		218,665		218,665
Licenses, Permits, and Fees	8,930	39,834		48,764
Fines, Forfeitures, and Penalties	7,519	382		7,901
Earnings on Investments	2,633	1,698		4,331
Other Revenue	17,157	129,204		146,361
	<u>198,388</u>	<u>1,209,910</u>	<u>687,776</u>	<u>2,096,074</u>
Total Cash Receipts	198,388	1,209,910	687,776	2,096,074
Cash Disbursements:				
Current:				
General Government	163,289	63,490		226,779
Public Safety		672,895		672,895
Public Works		471,472		471,472
Health		50,720		50,720
Debt Service:				
Redemption of Principal		17,301		17,301
Interest and Fiscal Charges		9,605		9,605
Capital Outlay	1,006	23,356	686,549	710,911
	<u>164,295</u>	<u>1,308,839</u>	<u>686,549</u>	<u>2,159,683</u>
Total Cash Disbursements	164,295	1,308,839	686,549	2,159,683
Total Receipts Over/(Under) Disbursements	34,093	(98,929)	1,227	(63,609)
Other Financing Receipts/(Disbursements):				
Advances-In		3,000		3,000
Advances-Out	(3,000)			(3,000)
	<u>(3,000)</u>	<u>3,000</u>		<u>(3,000)</u>
Total Other Financing Receipts/(Disbursements)	(3,000)	3,000		(3,000)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	31,093	(95,929)	1,227	(63,609)
Fund Cash Balances, January 1	57,913	269,826		327,739
Fund Cash Balances, December 31	<u>\$89,006</u>	<u>\$173,897</u>	<u>\$1,227</u>	<u>\$264,130</u>

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

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$45,897	\$671,304		\$717,201
Intergovernmental	106,453	148,538	\$31,063	286,054
Special Assessments		980		980
Charges for Services		210,141		210,141
Licenses, Permits, and Fees	8,406	38,269		46,675
Fines, Forfeitures, and Penalties	8,337	2,614		10,951
Earnings on Investments	4,207	3,562		7,769
Other Revenue	24,832	156,433		181,265
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Total Cash Receipts	198,132	1,231,841	31,063	1,461,036
Cash Disbursements:				
Current:				
General Government	201,827	92,663		294,490
Public Safety		687,210		687,210
Public Works		271,301		271,301
Health		52,279		52,279
Debt Service:				
Redemption of Principal		16,939		16,939
Interest and Fiscal Charges		9,603		9,603
Capital Outlay	6,087	20,908	31,063	58,058
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Total Cash Disbursements	207,914	1,150,903	31,063	1,389,880
Total Receipts Over/(Under) Disbursements	(9,782)	80,938		71,156
Other Financing Receipts/(Disbursements):				
Advances-In	7,000			7,000
Advances-Out		(7,000)		(7,000)
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Total Other Financing Receipts/(Disbursements)	7,000	(7,000)		
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(2,782)	73,938		71,156
Fund Cash Balances, January 1	60,695	195,888		256,583
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Fund Cash Balances, December 31	\$57,913	\$269,826	\$0	\$327,739
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Reserve for Encumbrances, December 31	\$0	\$24	\$0	\$24
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The notes to the financial statements are an integral part of this statement.

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Clay Township, Montgomery 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 road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements 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

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.

Certificates of deposit are valued at cost. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

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 for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Police Fund - This fund accounts for monies received from a tax levy for the purpose of maintaining the police department.

Fire Fund - This fund accounts for monies received from a tax levy for the purpose of maintaining the fire department.

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 project funds:

Issue II Fund - The Township received a grant from the State of Ohio, during 2002, to repair roads within the Township.

Agricultural Easement Purchase Program – The Township received grants from the State of Ohio to purchase land easements, in perpetuity, for farmland preservation.

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. 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. The Township did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

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. Accumulated Leave

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

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

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:

	2003	2002
Demand deposits	\$117,475	\$182,200
Certificates of deposit	45,000	45,000
Total deposits	162,475	227,200
STAR Ohio	101,655	100,539
Total deposits and investments	\$264,130	\$327,739

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

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$222,481	\$198,388	(\$24,093)
Special Revenue	1,342,647	1,209,910	(132,737)
Capital Projects	686,549	687,776	1,227
Total	\$2,251,677	\$2,096,074	(\$155,603)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$279,300	\$164,295	\$115,005
Special Revenue	1,584,375	1,308,839	275,536
Capital Projects	686,549	686,549	0
Total	\$2,550,224	\$2,159,683	\$390,541

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$194,156	\$198,132	\$3,976
Special Revenue	1,399,227	1,231,841	(167,386)
Capital Projects	31,412	31,063	(349)
Total	\$1,624,795	\$1,461,036	(\$163,759)

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$261,851	\$207,914	\$53,937
Special Revenue	1,578,317	1,150,925	427,392
Capital Projects	31,412	31,063	349
Total	<u>\$1,871,580</u>	<u>\$1,389,902</u>	<u>\$481,678</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of 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.

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Vehicle Acquisition Note	\$23,735	5.31%
Cemetery Site Acquisition Note	120,000	5.31%
Total	<u>\$143,735</u>	

The vehicle acquisition note was issued for the purchase of a new dump truck in 1999 and renewed in 2000. The cemetery site acquisition note was issued for the purchase of land for a cemetery in 2000. These notes are collateralized solely by the Township's taxing authority.

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

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$33,735	\$8,213	\$41,948
2005	110,000	5,841	115,841
Total	<u>\$143,735</u>	<u>\$14,054</u>	<u>\$157,789</u>

On October 31, 2004, the Township paid off the balance remaining on the vehicle acquisition note as a result of the total semi-annual payment assessed by the financial institution holding the loan being calculated incorrectly. The principal amount was only being charged, with this amount being allocated to principal and interest by the financial institution.

**CLAY TOWNSHIP
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. RETIREMENT SYSTEMS

The Township's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement 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. Members of OPERS contributed 8.5 percent of their gross salaries, and the Township contributed an amount equal to 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage - PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expense. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure. If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage - PEP retains property risks including automobile physical damage up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 in 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

Financial Position - PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and report the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained Earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

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Auditor of State Betty Montgomery

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

Clay Township
Montgomery County
8207 Arlington Road
Brookville, Ohio 45309

To the Board of Trustees:

We have audited the accompanying financial statements of Clay Township, Montgomery County, (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated January 19, 2005, wherein we noted that the Township's financial transactions were processed using 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 conduct the audit of the Township because the Auditor of State designed, developed, and 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 *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, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated January 19, 2005.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated January 19, 2005.

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Clay Township
Montgomery County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the management, and the Board of Trustees, and is not intended to be and should not be used by 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 19, 2005

CLAY TOWNSHIP
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 and 2002

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

FINDING NUMBER 2003-001

Certification of Expenditures

Ohio Revised Code Section 5705.41 (D), states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

An exception to this basic requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant ("Then and Now".) The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district. Amounts of less than \$1,000 (\$3,000 after April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Prior certification was not obtained for the expenditure of Township funds for forty-five percent of the transactions during the audit period. The lack of proper certifications could result in the Township obligating funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations.

The Township should establish procedures for obtaining certification prior to incurring an obligation, and/or for subsequent certification and approval as provided by the "then and now" exception noted above.

CLAY TOWNSHIP
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-001	5705.41(D) Revised Code - Failure to obtain prior certification	No	Repeated as finding number 2003-001



**Auditor of State
Betty Montgomery**

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**CLAY TOWNSHIP
MONTGOMERY 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
FEBRUARY 24, 2005**