



**CLAY TOWNSHIP
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

CLAY TOWNSHIP
OTTAWA COUNTY

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Mary Taylor, CPA

Auditor of State

Clay Township
Ottawa County
21774 West Holts East Road
Genoa, Ohio 43430-9546

To the Board of Trustees:

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

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

Mary Taylor, CPA
Auditor of State

September 27, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Clay Township
Ottawa County
21774 West Holts East Road
Genoa, Ohio 43430-9546

To the Board of Trustees:

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

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

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

September 27, 2007

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$39,648	\$462,824		\$502,472
Charges for Services		34,476		34,476
Licenses, Permits, and Fees	2,444	29,151		31,595
Fines and Forfeitures		6,577		6,577
Intergovernmental	164,051	277,248	\$65,814	507,113
Special Assessments			2,169	2,169
Earnings on Investments	6,904	763		7,667
Miscellaneous	12,139	23,829		35,968
	<u>225,186</u>	<u>834,868</u>	<u>67,983</u>	<u>1,128,037</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	109,850			109,850
Public Safety		367,126	65,814	432,940
Public Works	33	359,674		359,707
Health		123,744		123,744
Capital Outlay			1,997	1,997
Debt Service:				
Redemption of Principal		102,668		102,668
Interest and Other Fiscal Charges		12,224		12,224
	<u>109,883</u>	<u>965,436</u>	<u>67,811</u>	<u>1,143,130</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>115,303</u>	<u>(130,568)</u>	<u>172</u>	<u>(15,093)</u>
Other Financing Receipts:				
Other Debt Proceeds		102,768		102,768
Sale of Fixed Assets		5,500		5,500
	<u>108,268</u>	<u>108,268</u>		<u>108,268</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	115,303	(22,300)	172	93,175
Fund Cash Balances, January 1	<u>27,851</u>	<u>277,763</u>	<u>1,659</u>	<u>307,273</u>
Fund Cash Balances, December 31	<u><u>\$143,154</u></u>	<u><u>\$255,463</u></u>	<u><u>\$1,831</u></u>	<u><u>\$400,448</u></u>

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$39,552	\$395,908		\$435,460
Licenses, Permits, and Fees	11,472	22,935		34,407
Fines and Forfeitures		5,683		5,683
Intergovernmental	73,973	224,094	\$148,232	446,299
Special Assessments			2,340	2,340
Earnings on Investments	572	404		976
Miscellaneous	262	16,811		17,073
	<u>125,831</u>	<u>665,835</u>	<u>150,572</u>	<u>942,238</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	129,564			129,564
Public Safety		370,501		370,501
Public Works	364	182,460		182,824
Health		71,367		71,367
Capital Outlay		209,084	150,203	359,287
	<u>129,928</u>	<u>833,412</u>	<u>150,203</u>	<u>1,113,543</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(4,097)</u>	<u>(167,577)</u>	<u>369</u>	<u>(171,305)</u>
Other Financing Receipts:				
Sale of Notes		60,852		60,852
Other Debt Proceeds		148,232		148,232
Sale of Fixed Assets	8	6,800		6,808
	<u>8</u>	<u>215,884</u>		<u>215,892</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	(4,089)	48,307	369	44,587
Fund Cash Balances, January 1	31,940	229,456	1,290	262,686
Fund Cash Balances, December 31	<u><u>\$27,851</u></u>	<u><u>\$277,763</u></u>	<u><u>\$1,659</u></u>	<u><u>\$307,273</u></u>

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Clay Township, Ottawa County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, police protection. The Allen-Clay Joint Fire District provides fire and emergency medical services to the Township.

The Township participates in the Ohio Township Association Risk Management Authority (ORARMA) public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Ohio Township Association Risk Management Authority provides property and casualty insurance for its members.

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

B. Accounting Basis

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

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

C. 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Police Fund - This fund receives property tax money for the operation of the police department for the protection of the Township.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects. The Township had the following significant capital project fund:

Issue II Fund - The Township received a grant from the State of Ohio for road work project on Holtz East Road.

D. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

E. Property, Plant, and Equipment

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

F. Accumulated Leave

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2006	2005
Demand deposits	\$8,020	\$307,273
Repurchase Account	392,428	
Total deposits and investments	\$400,448	\$307,273

Deposits: Deposits are insured by the Federal Depository Insurance Corporation and collateralized by securities specifically pledged by the financial institution to the Township.

Investments: The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$117,000	\$225,186	\$108,186
Special Revenue	826,951	943,136	116,185
Capital Projects	67,974	67,983	9
Total	\$1,011,925	\$1,236,305	\$224,380

2006 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$144,851	\$109,883	\$34,968
Special Revenue	1,104,714	965,436	139,278
Capital Projects	69,633	67,811	1,822
Total	\$1,319,198	\$1,143,130	\$176,068

2005 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$107,100	\$125,839	\$18,739
Special Revenue	805,221	881,719	76,498
Capital Projects	150,392	150,572	180
Total	\$1,062,713	\$1,158,130	\$95,417

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

3. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$139,040	\$129,928	\$9,112
Special Revenue	1,017,878	833,412	184,466
Capital Projects	151,682	150,203	1,479
Total	\$1,308,600	\$1,113,543	\$195,057

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Police Car Loan	\$5,698	5.00%
Tractor/Mower Loan	48,442	3.50%
Holtz East Road Project Loan 1	134,574	5.00%
Holtz East Road Project Loan 2	26,485	6.00%
Total	\$215,199	

The Township issued commercial loans to finance the purchase of a police cruiser, new tractor/mower and road projects within the Township on the full faith and credit of the Township. The loans for the road projects were the matching amounts for the Issue II project.

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

5. DEBT – (CONTINUED)

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

Year ending December 31:	Police Crusier Loan	Tractor/Mower Loan	Holts East Road Project - Loan 1	Holts East Road Project - Loan 2
2007	\$5,983	\$13,547	\$19,081	\$2,290
2008		13,546	19,080	3,790
2009		13,547	19,801	3,790
2010		11,633	19,080	3,790
2011			19,081	3,790
2012 – 2016			73,273	18,952
Total	<u>\$5,983</u>	<u>\$52,273</u>	<u>\$169,396</u>	<u>\$36,402</u>

6. RETIREMENT SYSTEM

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, law enforcement officers contributed 10.1% of their wages. For 2006 and 2005, the Township contributed to OPERS an amount equal to 16.7% and 16.93% of full-time police members' wages, respectively. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

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

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

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

7. RISK MANAGEMENT – (CONTINUED)

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

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

Property Coverage

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

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

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

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

Financial Position

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

**CLAY TOWNSHIP
OTTAWA COUNTY**

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

7. RISK MANAGEMENT – (CONTINUED)

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$37,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

Contributions to OTARMA

2004	\$22,529
2005	\$21,282
2006	\$18,348

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

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Mary Taylor, CPA

Auditor of State

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

Clay Township
Ottawa County
21774 West Holts East Road
Genoa, Ohio 43430-9546

To the Township Board of Trustees:

We have audited the financial statements of Clay Township, Ottawa County, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 27, 2007 wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

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*.

We did note certain noncompliance that we reported to the Township's management in a separate letter dated September 5, 2007.

The Township's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Township's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

September 27, 2007

CLAY TOWNSHIP
OTTAWA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Significant Deficiency

Financial Reporting

We found several errors requiring adjustment to the financial statements. The Fiscal Officer did not record 2006 property tax settlement fees of \$2,156 as receipts or disbursements in the General Fund and also incorrectly recorded \$1,499 in the General Fund as tax receipts rather than intergovernmental receipts. The Fiscal Officer incorrectly recorded \$24,568 in the Special Revenue Fund Type as tax receipts rather than intergovernmental receipts in 2006.

In addition, in 2005 the Fiscal Officer recorded \$7,657 of license, permits, fees and \$262 of miscellaneous receipts as intergovernmental receipts in the General Fund. Also in 2005, the Fiscal Officer recorded \$6,800 of sale of asset receipts and \$3,683 of miscellaneous receipts in the Special Revenue Fund Type as intergovernmental receipts.

Sound financial reporting is the responsibility of the Fiscal Officer and Township Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Township Trustees, to identify and correct errors and omissions. Also, the Fiscal Officer can refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

Officials' Response:

The Fiscal Officer will review for errors and will make the corrections to the proper places.



Mary Taylor, CPA
Auditor of State

CLAY TOWNSHIP

OTTAWA 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
NOVEMBER 8, 2007**