



**Auditor of State
Betty Montgomery**

CLAY TOWNSHIP
OTTAWA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Clay Township
Ottawa County
21774 W. Holts East Road
Genoa, OH 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, 2002 and 2001. 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2002 and 2001, 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 May 22, 2003 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 audits.

Clay Township
Ottawa County
Independent Accountants' Report
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This report is intended solely for the information and use of the audit committee, management, the Board, 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

May 22, 2003

**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, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$35,242	\$382,844		\$418,086
Intergovernmental	227,658	185,534		413,192
Special Assessments			\$1,704	1,704
Charges for Services		300		300
Licenses, Permits, and Fees	8,507	18,964		27,471
Fines, Forfeitures, and Penalties		10,925		10,925
Earnings on Investments	13,887	857		14,744
Other Revenue	171	9,108		9,279
	<u>285,465</u>	<u>608,532</u>	<u>1,704</u>	<u>895,701</u>
Total Cash Receipts	<u>285,465</u>	<u>608,532</u>	<u>1,704</u>	<u>895,701</u>
Cash Disbursements:				
Current:				
General Government	232,124			232,124
Public Safety		414,717		414,717
Public Works	396	196,713		197,109
Health		61,897		61,897
Miscellaneous			1,877	1,877
	<u>232,520</u>	<u>673,327</u>	<u>1,877</u>	<u>907,724</u>
Total Cash Disbursements	<u>232,520</u>	<u>673,327</u>	<u>1,877</u>	<u>907,724</u>
Total Receipts Over/(Under) Disbursements	<u>52,945</u>	<u>(64,795)</u>	<u>(173)</u>	<u>(12,023)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>52,945</u>	<u>(64,795)</u>	<u>(173)</u>	<u>(12,023)</u>
Fund Cash Balances, January 1	<u>261,066</u>	<u>420,961</u>	<u>1,037</u>	<u>683,064</u>
Fund Cash Balances, December 31	<u><u>\$314,011</u></u>	<u><u>\$356,166</u></u>	<u><u>\$864</u></u>	<u><u>\$671,041</u></u>
Reserve for Encumbrances, December 31	<u> </u>	<u> </u>	<u> </u>	<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, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$35,773	\$388,252		\$424,025
Intergovernmental	162,073	157,219		319,292
Special Assessments			\$732	732
Charges for Services		6,759		6,759
Licenses, Permits, and Fees	3,182	20,070		23,252
Fines, Forfeitures, and Penalties		13,719		13,719
Earnings on Investments	28,747	2,386		31,133
Other Revenue		32,946		32,946
	<u>229,775</u>	<u>621,351</u>	<u>732</u>	<u>851,858</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	113,725			113,725
Public Safety		403,350		403,350
Public Works	7,270	204,805		212,075
Health		31,870		31,870
Miscellaneous			449	449
	<u>120,995</u>	<u>640,025</u>	<u>449</u>	<u>761,469</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>108,780</u>	<u>(18,674)</u>	<u>283</u>	<u>90,389</u>
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets		2,407		2,407
Contingencies	(43,283)			(43,283)
	<u>(43,283)</u>	<u>2,407</u>		<u>(40,876)</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	65,497	(16,267)	283	49,513
Fund Cash Balances, January 1	195,569	437,228	754	633,551
Fund Cash Balances, December 31	<u>\$261,066</u>	<u>\$420,961</u>	<u>\$1,037</u>	<u>\$683,064</u>
Reserve for Encumbrances, December 31	<u>\$15,541</u>			<u>\$15,541</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, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Clay Township, Ottawa 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, cemetery maintenance, fire protection, police 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.

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:

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, 2002 AND 2001
(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 are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant capital project fund:

Martin Lighting Fund - The fund receives special assessments for a lighting project within the Township.

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 in 2001. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 and 2001 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
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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:

	2002	2001
Demand deposits	\$571,041	\$283,064
Certificates of deposit	100,000	400,000
Total deposits	\$671,041	\$683,064

Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$117,691	\$285,465	\$167,774
Special Revenue	539,172	608,532	69,360
Capital Projects	1,400	1,704	304
Total	\$658,263	\$895,701	\$237,438

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$378,757	\$232,520	\$146,237
Special Revenue	960,133	673,327	286,806
Capital Projects	2,437	1,877	560
Total	\$1,341,327	\$907,724	\$433,603

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$99,519	\$229,775	\$130,256
Special Revenue	536,934	623,758	86,824
Capital Projects	2,046	732	(1,314)
Total	\$638,499	\$854,265	\$215,766

**CLAY TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$295,087	\$179,819	\$115,268
Special Revenue	974,152	640,025	334,127
Capital Projects	2,800	449	2,351
Total	\$1,272,039	\$820,293	\$451,746

The Township failed to properly certify funds prior to expenditures being incurred which was contrary to § 5705.41 (D), of the Ohio Revised Code.

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. RETIREMENT SYSTEMS

The Township's 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. OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equal to 13.55 percent of participants' gross salaries for 2002 and 2001. Policemen of the Township covered under OPERS contributed 9.0 percent of their gross salaries. The Township contributed an amount equal to 16.7 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

6. RISK MANAGEMENT

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 pay judgments,

**CLAY TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP 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 OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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.

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	9,379,003	8,924,977
Retained Earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>

<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	647,667	497,831
Retained Earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

7. COMPLIANCE

The Township did not comply with the state prevailing wage rates during the construction of a new police building with the use of their own workforce as required by state laws.

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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
Ottawa County
21774 W. Holts East Road
Genoa, OH 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, 2002 and 2001, and have issued our report thereon dated May 22, 2003. We conducted our audits 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 and 2002-002.

Internal Control over Financial Reporting

In planning and performing our audits, 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 May 22, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

This report is intended solely for the information and use of the audit committee, 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

May 22, 2003

**CLAY TOWNSHIP
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (D) states that no orders or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer certifying 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. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirement:

- Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was appropriated and free of any encumbrances, the Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within thirty days from the receipt of such certificate is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Trustees.

We noted that in 55 percent of transactions examined, the Township Clerk had issued the purchase orders and certified the funds after the expenditures had been incurred or has not certified the availability of funds at all. The Township Clerk did not encumber and/or certify the availability of funds during calendar year 2001. This was corrected upon the Township utilizing the UAN computer system in 2002. The failure to certify expenditures in a timely manner could result in expenditures being made in excess of amounts appropriated.

We recommend each purchase be encumbered prior to the ordering or receiving of goods and services.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 4511.04 requires every public authority to contract for or construct with its own forces a public improvement, before advertising for bids or undertaking such construction with its own forces, shall have the director of commerce determine the prevailing wage rates of mechanics and laborers in accordance with § 4115.05 of the Revised Code for the class of work to be performed. We noted that the Township did not contact the Director of Commerce to determine the prevailing wage rates that should have been paid to those working on the new police building.

Management was advised that the failure to pay the workers’ the prevailing wage rates could result in the Township underpaying or overpaying the workers’ constructing the new police building.

We recommend that the Township contract the Director of Commerce when using their work force to complete a project. We also recommend that the Township contact the Director of Commerce to obtain the appropriate solution to correct the current situation with the police building since the project has not yet been completed.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JUNE 24, 2003**