

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Township of Clay

**Financial Report
with Supplemental Information
June 30, 2007**

Township of Clay

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Independent Auditor's Report

To the Members of the Township Board
Township of Clay
St. Clair County, Michigan

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Clay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the Township Board
Township of Clay

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements, but is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Clay. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 24, 2007

Township of Clay

Management's Discussion and Analysis

Our discussion and analysis of the Township of Clay, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- Governmental activities include approximately \$370,000 of capital additions relating to Homeland Security grants received by the Mainland and Harsen's Island Fire Funds and \$655,000 of capital additions related to the purchase of land adjacent to the Township offices, which was financed by debt.
- The Township continued to advance fund a portion of its postretirement health care obligation by contributing a combined total of \$157,196 to a Municipal Employees' Retirement System (MERS) account from the General, Police, and Water Funds. The current year funding, plus prior year funding of \$110,000, resulted in a total investment at MERS of \$267,000. This investment, plus investments held in the Trust Fund - Employee Health Care Fund in the amount of \$413,247, provides a total of \$680,443 set aside to fund future postemployment health care costs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Clay

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Two Years Ago	Prior Year	Current Year	Change from Prior Year	
				in Dollars	as a Percent
Assets					
Capital assets	\$ 4,567,741	\$ 4,431,325	\$ 5,527,572	\$ 1,096,247	24.7
Other assets	<u>4,587,766</u>	<u>4,604,886</u>	<u>4,755,069</u>	<u>150,183</u>	3.3
Total assets	9,155,507	9,036,211	10,282,641	1,246,430	13.8
Liabilities					
Long-term liabilities	1,664,032	1,407,366	1,707,537	300,171	21.3
Other liabilities	<u>556,247</u>	<u>552,916</u>	<u>513,123</u>	<u>(39,793)</u>	(7.2)
Total liabilities	<u>2,220,279</u>	<u>1,960,282</u>	<u>2,220,660</u>	<u>260,378</u>	13.3
Net Assets					
Invested in capital assets -					
Net of related debt	3,734,924	3,772,565	4,543,970	771,405	20.4
Restricted	406,573	527,154	948,742	421,588	80.0
Unrestricted	<u>2,793,731</u>	<u>2,776,210</u>	<u>2,569,269</u>	<u>(206,941)</u>	(7.5)
Total net assets	<u>\$ 6,935,228</u>	<u>\$ 7,075,929</u>	<u>\$ 8,061,981</u>	<u>\$ 986,052</u>	13.9

Township of Clay

Management's Discussion and Analysis (Continued)

				Change from	
	Two Years Ago	Prior Year	Current Year	in Dollars	as a Percent
Revenue					
General revenue:					
Property taxes	\$ 2,618,522	\$ 2,786,549	\$ 2,913,670	\$ 127,121	4.6
State-shared revenue	674,344	674,147	663,214	(10,933)	(1.6)
Investment earnings	2,549	173,932	202,970	29,038	16.7
Franchise fees	37,428	44,769	56,074	11,305	25.3
Other miscellaneous revenue	27,587	30,573	10,856	(19,717)	(64.5)
Program revenue:					
Charges for services	761,674	739,367	777,453	38,086	5.2
Operating grants and contributions	136,034	355,968	205,998	(149,970)	(42.1)
Capital grants and contributions	338,198	152,670	620,328	467,658	306.3
Total revenue	4,596,336	4,957,975	5,450,563	492,588	9.9
Program Expenses					
General government	965,594	984,464	962,184	(22,280)	(2.3)
Public safety	2,767,650	2,722,948	2,500,297	(222,651)	(8.2)
Public works	807,168	704,940	756,863	51,923	7.4
Community development	97,529	254,503	99,332	(155,171)	(61.0)
Recreation	73,000	64,250	50,000	(14,250)	(22.2)
Interest on long-term debt	94,271	86,169	95,835	9,666	11.2
Total program expenses	4,805,212	4,817,274	4,464,511	(352,763)	(7.3)
Excess (Deficiency) of Revenue Over Expenses					
	(208,876)	140,701	986,052	845,351	600.8
Change in Net Assets					
	<u>\$ (208,876)</u>	<u>\$ 140,701</u>	<u>\$ 986,052</u>	<u>\$ 845,351</u>	600.8

A review of the governmental activities shows an increase of approximately \$986,000 in net assets, or 13.9 percent, during fiscal year 2007. The unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) at June 30, 2007 decreased approximately \$206,000 from the prior year.

This decrease in unrestricted net assets is primarily attributable to the payoff of capital related debt in the current year.

Property tax revenues, the single largest revenue for the Township, remained strong. A total of \$2.9 million was generated this year, of which the police and fire special assessment millages generated \$2.5 million. Charges for services, primarily inspection fees, generated \$.8 million in 2007.

Township of Clay

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township has two business-type activities, the water and sewer operations. The operations consist of the following: Water is provided to the Township residents via the City of Algonac and sewage treatment is provided by contracts with St. Clair County Department of Public Works. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

				Change from	
	Two Years Ago	Prior Year	Current Year	in Dollars	as a Percent
Assets					
Capital assets	\$ 18,124,891	\$ 17,830,276	\$ 17,246,380	\$ (583,896)	(3.3)
Other noncurrent assets	8,952,516	8,492,365	8,155,879	(336,486)	(4.0)
Current assets	<u>2,447,479</u>	<u>1,762,624</u>	<u>1,189,446</u>	<u>(573,178)</u>	(32.5)
Total assets	29,524,886	28,085,265	26,591,705	(1,493,560)	(5.3)
Liabilities					
Long-term liabilities	11,095,249	10,348,814	9,569,307	(779,507)	(7.5)
Other liabilities	<u>1,288,445</u>	<u>1,028,981</u>	<u>989,876</u>	<u>(39,105)</u>	(3.8)
Total liabilities	<u>12,383,694</u>	<u>11,377,795</u>	<u>10,559,183</u>	<u>(818,612)</u>	(7.2)
Net Assets					
Invested in capital assets - Net of related debt	10,235,643	10,557,712	10,428,323	(129,389)	(1.2)
Restricted	1,911,772	1,981,609	2,092,407	110,798	5.6
Unrestricted	<u>4,993,777</u>	<u>4,168,149</u>	<u>3,511,792</u>	<u>(656,357)</u>	(15.7)
Total net assets	<u>\$ 17,141,192</u>	<u>\$ 16,707,470</u>	<u>\$ 16,032,522</u>	<u>\$ (674,948)</u>	(4.0)

Township of Clay

Management's Discussion and Analysis (Continued)

	Two Years			Change from	
	Ago	Prior Year	Current Year	in	as a
				Dollars	Percent
Charges for services	\$ 1,323,447	\$ 1,402,929	\$ 1,334,370	\$ (68,559)	(4.9)
Operating expenses other than depreciation	1,362,960	1,464,435	1,343,206	(121,229)	(8.3)
Depreciation and amortization	<u>710,036</u>	<u>728,441</u>	<u>741,065</u>	<u>12,624</u>	1.7
Operating Loss	(749,549)	(789,947)	(749,901)	40,046	(5.1)
Interest income	101,269	287,672	258,481	(29,191)	(10.1)
Interest expense	(480,176)	(435,332)	(399,650)	35,682	(8.2)
Other expenses	-	-	-	-	
Debt service charges	185,505	165,285	183,322	18,037	10.9
Capital contributions	<u>117,926</u>	<u>338,600</u>	<u>32,800</u>	<u>(305,800)</u>	(90.3)
Change in Net Assets	<u>\$ (825,025)</u>	<u>\$ (433,722)</u>	<u>\$ (674,948)</u>	<u>\$ (241,226)</u>	55.6

The business-type activities experienced a 4.0 percent decrease in total net assets. This was primarily due to increased operating costs without a corresponding increase to operating revenue.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major governmental funds for 2007 include the General Fund, Police Fund, Mainland Fire Fund, Rubbish Collection Fund, and Harsen's Island Fire Fund. Both of the Township's Enterprise Funds are presented as major funds. The other supplemental information includes combining schedules that present the individual nonmajor funds.

The General Fund pays for most of the City's governmental services, with the exception of public safety and rubbish related costs. Police enforcement is recorded in the Police Fund and fire services are recorded in the Mainland Fire, Harsen's Island Fire, and Russell Island Fire Funds. The Township records rubbish collection costs and the related special assessment in the Rubbish Collection Fund. Police, fire, and rubbish services are supported by property taxes and/or special assessments.

Township of Clay

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the original budget by \$257,649, which related to the transfer to the Oaklawn Cemetery Fund to pay off a loan, in order to decrease overall interest expense of the Township. Total revenue was approximately \$729,000 more than expected as result of debt proceeds received related to the purchase of land and a drain assessment on the Township. Actual General Fund expenditures were approximately \$625,000 more than budget due primarily to capital outlay expenditures related to the purchase of land and the drain assessment on the Township.

Township Fund Financial Highlights

General Fund - The General Fund experienced a change in fund balance that was approximately \$145,000 less than in 2006. This decrease was primarily due to the transfer of \$257,649 to the Oaklawn Cemetery fund as described above. However, total recurring expenditures decreased approximately 10 percent from the prior year, due to continued focus on reducing costs by the board. Also, the Township purchased land financed through debt in the amount of approximately \$655,000.

Police Fund - The Police Fund experienced a change in fund balance that was approximately \$235,000 greater than in 2006. This increase was primarily due to a decrease of approximately \$200,000 in salaries and wages, as a result of changes in officer seniority levels and settlement of a litigation that was expensed in the prior year.

Mainland Fire Fund - The Mainland Fire Fund experienced a change in fund balance that was consistent with prior year. Also, the Mainland Fire Fund received approximately \$137,000 in Homeland Security Grants, which was offset by capital outlay expenditures.

Harsen's Island Fire Fund - The Harsen's Island Fire Fund experienced a change in fund balance that was approximately \$18,000 less than in 2006. This decrease was primarily due to increases in capital outlay expenditures. Also, the Harsen's Island Fire Fund received approximately \$147,000 in Homeland Security Grants, which was offset by capital outlay expenditures.

Rubbish Collection Fund - The Rubbish Collection Fund experienced a change in fund balance that was approximately \$38,000 greater than in 2006. This is primarily due to an increase in costs to the Township and the resulting increase in rates implemented by the Township in the current year.

Water Fund - The Water Fund experienced a change in net assets that was approximately \$266,000 greater than in 2006. This decrease was primarily due to a new special assessment in the prior year in the amount of approximately \$280,000 and no new special assessments in the current year.

Township of Clay

Management's Discussion and Analysis (Continued)

Sewer Fund - The Sewer Fund experienced a change in net assets that was approximately \$24,000 greater than the prior year. This increase is primarily due to decreases in the cost of sewage disposal.

Economic Factors and Next Year's Budgets and Rates

As the State of Michigan continues to look for solutions to significant structural budget problems, revenue sharing continues to be under attack. Our community continues to weather the cuts in state-shared revenue in part due to very positive conservative actions of previous boards. In addition, the Township is no longer receiving statutory revenue-sharing payments, which is the portion that has experienced drastic cuts in past years. Our current board continues the conservative example of previous boards, while always keeping our obligations to current and future residents as our beacon. Our community continues to grow, and we use our strategic future forecasts to plan for and budget for future needs.

We anticipate that the water and sewer rates will increase in 2008. We are in the process of evaluating the amount of increase that will be needed, and have begun implementing some increases beginning on July 1, 2007.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Clay

Statement of Net Assets June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash (Note 3)	\$ 4,095,388	\$ 774,461	\$ 4,869,849	\$ 431,164
Accounts receivable:				
Customer	-	322,553	322,553	-
Special assessments and other	394,222	1,772,508	2,166,730	-
Due from other governmental units	265,459	-	265,459	-
Inventories	-	92,432	92,432	-
Prepaid service contracts (Note 1)	-	4,290,964	4,290,964	-
Restricted assets (Note 8)	-	2,092,407	2,092,407	-
Capital assets (Note 5):				
Nondepreciable	725,000	32,562	757,562	3,809
Depreciable - Net	<u>4,802,572</u>	<u>17,213,818</u>	<u>22,016,390</u>	-
Total assets	<u>10,282,641</u>	<u>26,591,705</u>	<u>36,874,346</u>	<u>434,973</u>
Liabilities				
Accounts payable	41,611	116,998	158,609	15,289
Accrued and other liabilities	166,784	96,615	263,399	-
Performance bonds and deposits	98,663	-	98,663	-
Noncurrent liabilities (Note 7):				
Due within one year	206,065	776,263	982,328	-
Due in more than one year	<u>1,707,537</u>	<u>9,569,307</u>	<u>11,276,844</u>	-
Total liabilities	<u>2,220,660</u>	<u>10,559,183</u>	<u>12,779,843</u>	<u>15,289</u>
Net Assets				
Invested in capital assets - Net of related debt	4,543,970	10,428,323	14,972,293	3,809
Restricted:				
Law enforcement	328,086	-	328,086	-
Fire services	335,256	-	335,256	-
Rubbish collection	96,342	-	96,342	-
911 operations	136,018	-	136,018	-
D.A.R.E. operations	639	-	639	-
Street lighting	1,372	-	1,372	-
Road maintenance	51,029	-	51,029	-
Bond ordinance reserve	-	1,765,369	1,765,369	-
Equipment replacement reserve	-	327,038	327,038	-
Unrestricted	<u>2,569,269</u>	<u>3,511,792</u>	<u>6,081,061</u>	<u>415,875</u>
Total net assets	<u>\$ 8,061,981</u>	<u>\$ 16,032,522</u>	<u>\$ 24,094,503</u>	<u>\$ 419,684</u>

Township of Clay

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 962,184	\$ 40,389	\$ -	\$ 20,975
Public safety	2,500,297	129,298	97,263	435,731
Public works	756,863	599,987	5,712	163,622
Community and economic development	99,332	7,779	62,105	-
Recreation and culture	50,000	-	40,918	-
Interest on long-term debt	95,835	-	-	-
Total governmental activities	4,464,511	777,453	205,998	620,328
Business-type activities:				
Water	1,735,090	1,040,518	-	27,400
Sewer	748,831	477,174	-	5,400
Total business-type activities	2,483,921	1,517,692	-	32,800
Total primary government	<u>\$ 6,948,432</u>	<u>\$ 2,295,145</u>	<u>\$ 205,998</u>	<u>\$ 653,128</u>
Component Unit - Downtown Development Authority	<u>\$ 332,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Cable franchise fees
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (900,820)	\$ -	\$ (900,820)	\$ -
(1,838,005)	-	(1,838,005)	-
12,458	-	12,458	-
(29,448)	-	(29,448)	-
(9,082)	-	(9,082)	-
(95,835)	-	(95,835)	-
(2,860,732)	-	(2,860,732)	-
-	(667,172)	(667,172)	-
-	(266,257)	(266,257)	-
-	(933,429)	(933,429)	-
(2,860,732)	(933,429)	(3,794,161)	-
-	-	-	(332,990)
2,913,670	-	2,913,670	317,844
663,214	-	663,214	-
202,970	258,481	461,451	10,781
56,074	-	56,074	-
10,856	-	10,856	-
3,846,784	258,481	4,105,265	328,625
986,052	(674,948)	311,104	(4,365)
7,075,929	16,707,470	23,783,399	424,049
\$ 8,061,981	\$ 16,032,522	\$ 24,094,503	\$ 419,684

Township of Clay

Governmental Funds Balance Sheet June 30, 2007

	Major Special Revenue Funds					Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire		
Assets							
Cash (Note 3)	\$ 2,394,873	\$ 567,753	\$ 293,157	\$ 99,042	\$ 66,484	\$ 674,079	\$ 4,095,388
Special assessments receivable	81,260	-	-	-	-	312,962	394,222
Due from other funds (Note 6)	94,038	-	-	-	-	-	94,038
Due from other governmental units	256,139	-	-	-	9,320	-	265,459
Total assets	\$ 2,826,310	\$ 567,753	\$ 293,157	\$ 99,042	\$ 75,804	\$ 987,041	\$ 4,849,107
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 8,041	\$ 12,020	\$ 5,395	\$ 2,700	\$ 13,438	\$ 17	\$ 41,611
Accrued and other liabilities	31,047	57,442	16,019	-	5,834	-	110,342
Due to other funds (Note 6)	-	94,038	-	-	-	-	94,038
Performance bonds and deposits	98,663	-	-	-	-	-	98,663
Deferred revenue (Note 4)	81,260	-	-	-	-	312,962	394,222
Total liabilities	219,011	163,500	21,414	2,700	19,272	312,979	738,876
Fund Balances							
Reserved for:							
Noncurrent receivable from Police Fund	94,038	-	-	-	-	-	94,038
911 operations	-	136,018	-	-	-	-	136,018
Unreserved - Undesignated	2,513,261	268,235	271,743	96,342	56,532	-	3,206,113
Unreserved - Reported in:							
Nonmajor Special Revenue Funds	-	-	-	-	-	154,035	154,035
Nonmajor Capital Project Fund	-	-	-	-	-	520,027	520,027
Total fund balances	2,607,299	404,253	271,743	96,342	56,532	674,062	4,110,231
Total liabilities and fund balances	\$ 2,826,310	\$ 567,753	\$ 293,157	\$ 99,042	\$ 75,804	\$ 987,041	\$ 4,849,107
Fund Balance - Total governmental funds							\$ 4,110,231
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and are not reported in the funds							5,527,572
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures							394,222
Accrued interest payable on long-term debt is not recorded in the funds							(50,875)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:							
Notes payable							(1,913,602)
Compensated absences							(5,567)
Net assets of governmental activities							\$ 8,061,981

Township of Clay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Special Revenue Funds						Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire	Other Nonmajor Governmental Funds	
Revenue							
Property taxes	\$ 406,731	\$ 1,858,681	\$ 437,671	\$ -	\$ 205,093	\$ 5,494	\$ 2,913,670
Licenses and permits	80,635	-	-	-	-	-	80,635
Intergovernmental revenue:							
Local sources	40,918	-	-	-	-	-	40,918
State sources	663,214	51,124	-	-	-	62,105	776,443
Federal sources	-	1,552	137,216	-	147,234	-	286,002
Charges for services	96,494	18,004	-	-	-	35,665	150,163
Investment income	132,505	25,598	11,282	1,175	2,709	29,701	202,970
Fines and forfeitures	-	21,635	-	-	-	-	21,635
Special and maintenance assessment	26,804	-	-	562,162	-	72,824	661,790
Other	19,458	29,395	4,301	838	4,614	32,533	91,139
Total revenue	1,466,759	2,005,989	590,470	564,175	359,650	238,322	5,225,365
Expenditures							
Current services:							
General government	1,283,879	-	-	-	-	-	1,283,879
Police	-	1,732,898	-	-	-	-	1,732,898
Mainland Fire	-	-	238,600	-	-	-	238,600
Rubbish collection	-	-	-	513,235	-	-	513,235
Drug enforcement	-	-	-	-	-	3,167	3,167
Harsen's Island Fire	-	-	-	-	113,036	-	113,036
Oaklawn Cemetery	-	-	-	-	-	35,046	35,046
Special lighting	-	-	-	-	-	1,259	1,259
Road maintenance	-	-	-	-	-	28,504	28,504
Russell Island Fire	-	-	-	-	-	3,713	3,713
South Channel Lights	-	-	-	-	-	62,105	62,105
Capital outlay	774,708	41,414	152,243	-	175,022	-	1,143,387
Debt service	18,327	-	106,701	-	62,144	384,231	571,403
Total expenditures	2,076,914	1,774,312	497,544	513,235	350,202	518,025	5,730,232
Excess of Revenue Over (Under)							
Expenditures	(610,155)	231,677	92,926	50,940	9,448	(279,703)	(504,867)
Other Financing Sources (Uses)							
Proceeds from debt	732,737	-	-	-	-	-	732,737
Transfers in	-	-	-	-	-	257,649	257,649
Transfers out	(257,649)	-	-	-	-	-	(257,649)
Total other financing sources (uses)	475,088	-	-	-	-	257,649	732,737
Net Change in Fund Balances	(135,067)	231,677	92,926	50,940	9,448	(22,054)	227,870
Fund Balances - Beginning of year	2,742,366	172,576	178,817	45,402	47,084	696,116	3,882,361
Fund Balances - End of year	\$ 2,607,299	\$ 404,253	\$ 271,743	\$ 96,342	\$ 56,532	\$ 674,062	\$ 4,110,231

Township of Clay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 227,870

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 1,173,893

Donated assets do not provide current financial resources and are therefore not recorded in governmental funds; in the statement of activities, these donations are recorded as capital contributions 335,878

Depreciation is recorded as an expense in the statement of activities but not in the governmental funds (410,553)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (62,641)

Proceeds from the issuance of debt is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt) (732,737)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 482,895

Loss on sale of fixed assets is calculated based on the net book value of assets sold in the statement of activities; the proceeds from these sales are recorded as income in the governmental funds (2,971)

Changes in accumulated employee vacation pay are recorded when earned in the statement of activities (5,567)

Interest expense is recorded when incurred in the statement of activities (20,015)

Change in Net Assets of Governmental Activities **\$ 986,052**

Township of Clay

Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash (Note 3)	\$ 720,499	\$ 53,962	\$ 774,461
Customer receivables	145,553	177,000	322,553
Current portion of special assessments	156,212	-	156,212
Due from other funds	-	711	711
Inventories	74,336	18,096	92,432
Prepaid service contracts - Current portion (Note 1)	149,669	-	149,669
Total current assets	1,246,269	249,769	1,496,038
Noncurrent assets:			
Restricted assets (Note 8)	327,038	1,765,369	2,092,407
Special assessments receivable	1,616,296	-	1,616,296
Prepaid service contracts (Note 1)	4,141,295	-	4,141,295
Capital assets (Note 5):			
Nondepreciable	-	32,562	32,562
Depreciable - Net	9,827,813	7,386,005	17,213,818
Total noncurrent assets	15,912,442	9,183,936	25,096,378
Total assets	17,158,711	9,433,705	26,592,416
Liabilities			
Current liabilities:			
Accounts payable	66,374	50,624	116,998
Accrued and other liabilities	84,337	-	84,337
Due to other funds	711	-	711
Current portion of long-term debt (Note 7)	646,875	-	646,875
Total current liabilities	798,297	50,624	848,921
Current liabilities payable from restricted assets	-	141,666	141,666
Long-term debt - Net of current portion (Note 7)	8,296,250	1,273,057	9,569,307
Total liabilities	9,094,547	1,465,347	10,559,894
Net Assets			
Invested in capital assets - Net of related debt	4,282,813	6,145,510	10,428,323
Bond ordinance reserve	-	1,765,369	1,765,369
Equipment replacement reserves	327,038	-	327,038
Unrestricted	3,454,313	57,479	3,511,792
Total net assets	\$ 8,064,164	\$ 7,968,358	\$ 16,032,522

Township of Clay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
User charges	\$ 743,725	\$ 477,174	\$ 1,220,899
Tap-in fees	29,350	-	29,350
Hydrant rental	24,080	-	24,080
Other operating income	60,041	-	60,041
Total operating revenue	857,196	477,174	1,334,370
Operating Expenses			
Cost of water and sewage disposal	387,638	221,698	609,336
Salaries and wages	182,918	94,500	277,418
Fringe benefits	228,600	-	228,600
Meters, tools, and supplies	50,374	5,539	55,913
Administration fee	35,000	-	35,000
Utilities	27,061	10,222	37,283
Repairs and maintenance	8,119	2,091	10,210
Depreciation and amortization	423,474	317,591	741,065
Other operating expenses	48,458	40,988	89,446
Total operating expenses	1,391,642	692,629	2,084,271
Operating Loss	(534,446)	(215,455)	(749,901)
Nonoperating Revenue (Expenses)			
Investment income	178,049	80,432	258,481
Interest expense	(343,448)	(56,202)	(399,650)
Debt service charges	183,322	-	183,322
Total nonoperating revenue	17,923	24,230	42,153
Net Loss - Before capital contributions	(516,523)	(191,225)	(707,748)
Capital Contributions	27,400	5,400	32,800
Change in Net Assets	(489,123)	(185,825)	(674,948)
Net Assets - Beginning of year	8,553,287	8,154,183	16,707,470
Net Assets - End of year	\$ 8,064,164	\$ 7,968,358	\$ 16,032,522

Township of Clay

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 809,807	\$ 484,964	\$ 1,294,771
Payments to suppliers	(560,946)	(306,808)	(867,754)
Payments to employees	(411,518)	(94,500)	(506,018)
Other receipts	60,041	80	60,121
Net cash (used in) provided by operating activities	(102,616)	83,736	(18,880)
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments (principal)	298,982	5,400	304,382
Collection of debt service charge	183,322	-	183,322
Purchase of capital assets	(120,357)	-	(120,357)
Principal and interest paid on capital debt	(985,848)	(190,433)	(1,176,281)
Net cash used in capital and related financing activities	(623,901)	(185,033)	(808,934)
Cash Flows from Investing Activities - Interest received on investments			
	178,049	80,432	258,481
Net Decrease in Cash and Cash Equivalents	(548,468)	(20,865)	(569,333)
Cash and Cash Equivalents - Beginning of year	1,596,005	1,809,668	3,405,673
Cash and Cash Equivalents - End of year	<u>\$ 1,047,537</u>	<u>\$ 1,788,803</u>	<u>\$ 2,836,340</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 720,499	\$ 53,962	\$ 774,461
Restricted assets (Note 8)	327,038	1,734,841	2,061,879
Total cash and cash equivalents	<u>\$ 1,047,537</u>	<u>\$ 1,788,803</u>	<u>\$ 2,836,340</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (534,446)	\$ (215,455)	\$ (749,901)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	423,474	317,591	741,065
Changes in assets and liabilities:			
Receivables	12,652	7,870	20,522
Inventories	18,103	579	18,682
Accounts payable	(22,399)	(26,849)	(49,248)
Net cash (used in) provided by operating activities	<u>\$ (102,616)</u>	<u>\$ 83,736</u>	<u>\$ (18,880)</u>

Noncash Investing, Capital, and Financing Activities - There were no significant noncash investing, capital, or financing activities during the year.

Township of Clay

Fiduciary Funds Statement of Net Assets June 30, 2007

	Employee Health Care Fund	Agency Fund
Assets		
Cash (Note 3)	\$ -	\$ 200,649
Investments - Tax deferred annuities (Note 3)	<u>413,247</u>	<u>-</u>
Total assets	413,247	<u><u>\$ 200,649</u></u>
Liabilities		
Accrued and other liabilities	-	\$ 20,599
Due to other governmental units	-	7,940
Performance bonds and deposits	<u>-</u>	<u>172,110</u>
Total liabilities	<u>-</u>	<u><u>\$ 200,649</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 413,247</u></u>	

Township of Clay

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Trust Fund - Employee Health Care Fund
Additions - Contributions	\$ 110,000
Deductions - Transfer to multiemployer trust	<u>157,196</u>
Net Decrease	(47,196)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>460,443</u>
End of year	<u><u>\$ 413,247</u></u>

Township of Clay

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority
Assets	
Cash (Note 3)	\$ 431,164
Capital assets - Nondepreciable (Note 5)	<u>3,809</u>
Total assets	<u><u>\$ 434,973</u></u>
Liabilities - Accounts payable	\$ 15,289
Net Assets	
Invested in capital assets - Net of related debt	3,809
Unrestricted	<u>415,875</u>
Total net assets and liabilities	<u><u>\$ 434,973</u></u>

Township of Clay

Component Units Statement of Activities Year Ended June 30, 2007

	Program Revenues	Net (Expense)
Expenses	Charges for Services	Revenue and Changes in Net Assets
		Total
Downtown Development Authority - Community and economic development	<u>\$ 332,990</u>	<u>\$ -</u> \$ (332,990)
General revenues:		
Property taxes		317,844
Unrestricted investment earnings		<u>10,781</u>
Total general revenues		<u>328,625</u>
Change in Net Assets		(4,365)
Net Assets - Beginning of year		<u>424,049</u>
Net Assets - End of year		<u>\$ 419,684</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Clay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The Clay Township Building Authority is governed by a board that is appointed by the board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings. There was no activity in the Building Authority during the 2007 fiscal year.

Discretely Presented Component Units - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the board of trustees. In addition, the Authority's budget is subject to approval by the board of trustees. Complete financial statements can be obtained from Township of Clay at 4710 Pointe Tremble Road, Algonac, Michigan 48001.

Harsen's Island Transportation Authority - The Harsen's Island Transportation Authority was created to assist the transportation of people and goods between the mainland and Harsen's Island. The governing body, which consists of five individuals, is selected by the Township board of trustees. In addition, any budgets of the Authority will be subject to approval by the board of trustees. As of this date, the Authority has not begun any financial activities.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Clay Township Police Fund - The Clay Township Police Fund is used to account for the operations of law enforcement activity in the Township. Funding is provided primarily through a local property tax levy.

Mainland Fire Fund - The Mainland Fire Fund is used to account for the operations of firefighting activity in the Township. Funding is provided primarily through a local property tax levy.

Rubbish Collection Fund - The Rubbish Collection Fund accounts for the operations of the refuse disposal activities of the Township. Funding is provided primarily through special assessment.

Harsen’s Island Fire Fund - The Harsen’s Island Fire Fund is used to account for the operations of firefighting activity on Harsen’s Island. Funding is provided primarily through a local property tax levy.

Note I - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Other Employee Benefits Trust Fund - The Other Employee Benefits Trust Fund accounts for the activities of the employee benefit plan, which accumulates resources for other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township was approximately \$438 million for operations, \$427 million for police services, \$320 million for Mainland fire services, \$117 million for Harsen's Island fire services, and \$6 million for Russell Island fire services (a portion of which is captured by the DDA for the operations and police). Taxes levied consisted of .5623 mills for operating purposes, 4.35 mills for police services, 1.375 mills for Mainland fire services, 1.75 mills for Harsen's Island fire services, and .9 mills for Russell Island fire services. This resulted in approximately \$247,000 for operating, \$1,859,000 for police services, \$438,000 for Mainland fire services, \$205,000 for Harsen's Island fire services, and \$5,000 for Russell Island fire services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is generally allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Prepaid Service Contracts - Prepaid service contracts represent the Township's portion of various upgrades made to the City of Algonac's water plant for which the Township has no direct ownership interest. Payments are amortized over the deemed life of the water service contract with the City of Algonac and are recorded as depreciation expense.

Restricted Assets - The Township has contracts with the City of Algonac to set amounts aside in the Water Fund for maintenance, repair, and equipment replacement of the water system. The sewer ordinance requires amounts to be set aside for debt service on sewer system debt, and maintenance, repair, and equipment replacement of the sewer system. Amounts on deposit at the County are being held for the construction of the Township's sewer lines.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Underground mains	50 years
Sewage treatment plant	50 years
Buildings and building improvements	20 to 50 years
Vehicles and equipment	3 to 20 years
Furniture and fixtures	7 to 20 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to not permit employees to accumulate earned but unused sick and vacation pay benefits at the end of the year. There is no liability for unpaid accumulated vacation and sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." The budgetary comparison schedules (General Fund and Major Special Revenue Funds) are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as adopted by the Township board is included in the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred total general government expenditures of \$2,334,563 in the General Fund, which was in excess of the amount budgeted of \$1,709,775. This was due to expenditures related to the purchase of land. The Township also incurred \$141,606 and \$166,347 in the Mainland Fire Special Revenue Fund and Harsen's Island Special Revenue Fund, respectively, related to capital outlay from a Homeland Security grant that was not budgeted for.

Township of Clay

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Beginning balance - Shortfall		\$ (566,377)
Building permit revenue		78,586
Related expenses:		
Direct costs	\$ 180,838	
Estimated indirect costs	<u>8,597</u>	
Total construction code expenses		<u>189,435</u>
Ending balance - Shortfall		<u>\$ (677,226)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employee Health Care Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Township of Clay

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

The Township has designated one bank for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the State statutory authority as listed above.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township's deposit balance of \$7,154,743 included \$6,954,743 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had a bank balance of \$431,144, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not further limit its investment choices.

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Tax-deferred annuities	\$ 413,247	A+	Standard & Poor's

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer. More than 5 percent of the Employee Health Care Fund's investments are in AmerUs 10-year Multi Choice Annuities; these investments are 100 percent of the fund's total investments.

Note 4 - Deferred Revenue

The governmental funds have reported \$394,222 of deferred revenue in connection with special assessment receivables that are not considered to be available to liquidate liabilities of the current period.

Township of Clay

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the Township's governmental, business-type, and component unit activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated - Land	\$ 70,000	\$ 655,000	\$ -	\$ 725,000
Capital assets being depreciated:				
Infrastructure	583,095	283,330	-	866,425
Buildings and improvements	3,988,378	60,544	-	4,048,922
Vehicles and equipment	3,197,132	510,897	20,795	3,687,234
Furniture and fixtures	64,995	-	-	64,995
Subtotal	7,833,600	854,771	20,795	8,667,576
Accumulated depreciation:				
Infrastructure	273,388	43,321	-	316,709
Buildings and improvements	1,502,993	108,003	-	1,610,996
Vehicles and equipment	1,673,275	254,663	17,824	1,910,114
Furniture and fixtures	22,619	4,566	-	27,185
Subtotal	3,472,275	410,553	17,824	3,865,004
Net capital assets being depreciated	4,361,325	444,218	2,971	4,807,522
Net capital assets	\$ 4,431,325	\$ 1,099,218	\$ 2,971	\$ 5,527,572
Business-type Activities				
Water Fund				
Capital assets being depreciated:				
Underground mains	\$ 12,983,213	\$ -	\$ -	\$ 12,983,213
Buildings	250,000	-	-	250,000
Vehicles and equipment	279,685	-	-	279,685
Subtotal	13,512,898	-	-	13,512,898
Accumulated depreciation:				
Underground mains	3,097,333	254,246	-	3,351,579
Buildings	70,000	5,000	-	75,000
Vehicles and equipment	251,447	7,059	-	258,506
Subtotal	3,418,780	266,305	-	3,685,085
Net capital assets - Water Fund	10,094,118	(266,305)	-	9,827,813

Township of Clay

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type Activities (Continued)				
Sewer Fund				
Capital assets not being depreciated - Land	\$ 32,562	\$ -	\$ -	\$ 32,562
Capital assets being depreciated:				
Underground mains	9,800,988	-	-	9,800,988
Sewage treatment plant	5,328,495	-	-	5,328,495
Buildings	257,950	-	-	257,950
Vehicles and equipment	122,770	-	-	122,770
Subtotal	15,510,203	-	-	15,510,203
Accumulated depreciation:				
Underground mains	5,588,444	195,695	-	5,784,139
Sewage treatment plant	2,062,397	106,738	-	2,169,135
Buildings	72,226	5,159	-	77,385
Vehicles and equipment	83,540	9,999	-	93,539
Subtotal	7,806,607	317,591	-	8,124,198
Net capital assets being depreciated	7,703,596	(317,591)	-	7,386,005
Net capital assets - Sewer Fund	7,736,158	(317,591)	-	7,418,567
Net business-type activity capital assets	\$ 17,830,276	\$ (583,896)	\$ -	\$ 17,246,380

Depreciation and amortization expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 82,812
Public safety	282,893
Public works	20,680
Community and economic development	24,168
Total governmental activities	<u>\$ 410,553</u>
Business-type activities:	
Water	\$ 423,474
Sewer	317,591
Total business-type activities	<u>\$ 741,065</u>

Township of Clay

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Police Fund	\$ 94,038
Sewer Fund	Water Fund	711
Total		<u>\$ 94,749</u>

The balance due to the General Fund from the Police Fund results from the General Fund lending funds to the Police Fund for the construction of the police department building.

The details of the interfund transfer for the year ended June 30, 2007 are as follows:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor Fund	<u>\$ 257,649</u>

The above transfer from the General Fund to the Oaklawn Cemetery Fund was to provide funds to pay off outstanding debt in the current year.

Note 7 - Long-term Debt

The Township of Clay issues bonds to provide for the acquisition and construction of major capital facilities. County contractual agreements and installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Township of Clay

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements:							
2003 mausoleum term notes:							
Amount of issue: \$265,000	5.100%	\$22,307 -					
Maturing through 2013		\$222,157	\$ 199,075	\$ -	\$ 199,075	\$ -	\$ -
2003 mausoleum term notes:							
Amount of issue: \$60,000	7.000%	\$4,692 -					
Maturing through 2013		\$50,923	46,238	-	46,238	-	-
Mainland fire truck term note:							
Amount of issue: \$271,837	3.770%	\$53,502 -					
Maturing through 2007		\$58,046	58,046	-	58,046	-	-
Harsen's Island fire truck and rescue boat term note:							
Amount of issue: \$287,688	4.360%	\$37,550 -					
Maturing through 2010		\$46,621	174,967	-	40,945	134,022	42,756
Harsen's Island airboat term note:							
Amount of issue: \$37,897	6.500%	\$12,452 -					
Maturing through 2007		\$13,006	13,004	-	13,004	-	-
Mainland fire boat term note:							
Amount of issue: \$206,000	4.050%	\$37,000					
Maturing through 2010		\$45,000	167,430	-	38,616	128,814	41,030
2007 land purchase term note:							
Amount of issue: \$625,000	4.450%	\$30,000 -					
Maturing through 2022		\$50,000	-	625,000	-	625,000	40,308
Special assessment bonds:							
2000 Special Assessment Bonds:							
Amount of issue: \$1,360,000	5.10% -	\$70,000 -					
Maturing through 2020	5.50%	\$75,000	1,005,000	-	75,000	930,000	70,000
Other debt:							
Dana Drain Special Assessment payable:							
Amount of issue: \$107,737	5.900%	\$11,971					
Maturing through 2015			-	107,737	11,971	95,766	11,971
Total governmental activities			\$ 1,663,760	\$ 732,737	\$ 482,895	\$ 1,913,602	\$ 206,065
Business-type Activities							
Water Fund							
Contractual obligations with St. Clair County:							
1998 Algonac Water Plant (through the Michigan Drinking Water Revolving Fund Fund Program) Township portion is 62.5%							
Amount of issue: \$7,830,600	2.50%	\$218,750 -					
Maturing through 2020		\$302,500	\$ 3,702,500	\$ -	\$ 221,875	\$ 3,480,625	\$ 234,375
1999 Water System No. II-A (Refunding):							
Amount of issue: \$1,485,000	3.300% -	\$90,000 -					
Maturing through 2017	8.125%	\$110,000	1,085,000	-	90,000	995,000	95,000
Deferred amount on refunding			(90,000)	-	(7,500)	(82,500)	(7,500)
2002 Water Supply System No. II-A:							
Amount of issue: \$6,175,000	3.875% -	\$325,000					
Maturing through 2021	5.000%		4,875,000	-	325,000	4,550,000	325,000
Total Water Fund			9,572,500	-	629,375	8,943,125	646,875

Township of Clay

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities (Continued)							
Sewer Fund							
Contractual obligations with St. Clair County:							
1999 Sewage System No. 1:							
Amount of issue: \$2,160,000	5.00% -	\$77,904 -					
Maturing through 2012	5.125%	\$101,708	\$ 575,624	\$ -	\$ 86,679	\$ 488,945	\$ 90,888
2003 County Sewage Disposal System I Bonds:							
Amount of issue: \$3,000,000	3.375% -	\$33,250 -					
Maturing through 2023	4.600%	\$80,500	950,250	-	36,750	913,500	38,500
Total Sewer Fund			1,525,874	-	123,429	1,402,445	129,388
Total business-type activities			\$ 11,098,374	\$ -	\$ 752,804	\$ 10,345,570	\$ 776,263

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 206,065	\$ 81,529	\$ 287,594	\$ 776,263	\$ 386,740	\$ 1,163,003
2009	201,314	81,984	283,298	782,341	358,022	1,140,363
2010	212,113	72,431	284,544	799,044	328,544	1,127,588
2011	116,888	62,639	179,527	807,958	298,311	1,106,269
2012	118,442	56,790	175,232	816,339	266,987	1,083,326
2013-2017	604,104	191,793	795,897	3,738,125	888,114	4,626,239
2018-2022	454,676	48,547	503,223	2,545,000	219,230	2,764,230
2023-2024	-	-	-	80,500	1,852	82,352
Total	\$ 1,913,602	\$ 595,713	\$ 2,509,315	\$ 10,345,570	\$ 2,747,800	\$ 13,093,370

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities		
	Water Fund	Sewer Fund	Total
Cash and investments:			
Contract with City of Algonac	\$ 52,854	\$ -	\$ 52,854
Equipment Replacement Fund	274,184	-	274,184
Bond ordinance requirement	-	1,734,841	1,734,841
Total cash and investments	327,038	1,734,841	2,061,879
Assets held at County	-	30,528	30,528
Total restricted assets	\$ 327,038	\$ 1,765,369	\$ 2,092,407

Note 8 - Restricted Assets (Continued)

The contract with the City of Algonac and the Equipment Replacement Fund is restricted for maintenance, repair, and equipment replacement of the water system. The bond ordinance requirement is restricted for debt service on sewer debt and maintenance, repair, and equipment replacement of the sewer system. The assets held at the County for the Sewer Fund represent the Township's portion of the remaining cash maintained by the St. Clair County Department of Public Works for the 2003 St. Clair County Sewage Disposal System I bonds.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims and participates in the State Pool program of the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The State Pool program of the Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers substantially all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 3.91 percent to 9.99 percent of gross wages.

Township of Clay

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2007, the Township's annual pension cost of \$194,865 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3 percent to 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years. The December 31, 2006 actuarial valuation reflects a prospective gradual reduction in the amortization period for open divisions from 30 years to 25 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 194,865	\$ 194,877	\$ 224,062
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Actuarial Valuation as of December 31		
	2006	2005	2004
Actuarial value of assets	\$ 3,312,400	\$ 2,934,270	\$ 2,595,866
Actuarial Accrued Liability (AAL)			
(entry age normal)	\$ 5,842,451	\$ 5,454,398	\$ 4,869,915
Unfunded AAL (UAAL)	\$ 2,530,051	\$ 2,520,128	\$ 2,274,049
Funded ratio	57%	54%	53%
Covered payroll	\$ 1,632,291	\$ 1,787,325	\$ 1,804,801
UAAL as a percentage of covered payroll	155%	141%	126%

Note 11 - Postemployment Benefits

The Township provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, seven retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with participants paying \$125 to cover spouses and 100 percent of dependent care cost. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$89,000.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 12 - Joint Ventures

The Township is a member of the Downriver Recreation Commission, which provides recreational services to the residents of the Township and the City of Algonac. The participating communities provide annual funding for its operations. During the current year, the Township contributed \$40,000 for its operations. The Township does not have an equity interest in the Commission. Complete financial statements for the Commission can be obtained from the administrative offices at Algonquin Junior High School, 9185 Marsh Road, Algonac, MI 48001. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future.

Required Supplemental Information

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 415,270	\$ 415,270	\$ 406,731	\$ (8,539)
Licenses and permits	125,400	125,400	80,635	(44,765)
Intergovernmental revenue:				
State sources	702,127	702,127	663,214	(38,913)
Local sources	38,000	38,000	40,918	2,918
Charges for services	101,000	101,000	96,494	(4,506)
Investment income	60,450	60,450	132,505	72,055
Special and maintenance assessment	13,206	13,206	26,804	13,598
Other	15,000	15,000	19,458	4,458
Proceeds from debt	-	-	732,737	732,737
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	1,470,453	1,470,453	2,199,496	729,043
Expenditures				
Salaries:				
Supervisor	41,200	41,200	41,200	-
Clerk	54,631	54,631	54,631	-
Treasurer	52,489	52,489	52,489	-
Permanent employees	335,158	335,158	322,862	12,296
Fringe benefits	217,200	217,200	206,327	10,873
Township Board	10,000	10,000	6,750	3,250
Recreation	40,000	40,000	40,000	-
Board of Review	5,000	5,000	3,900	1,100
Commission fees	14,000	14,000	16,311	(2,311)
Elections	17,250	17,250	14,816	2,434
Office supplies	11,500	11,500	11,934	(434)
Postage	24,000	24,000	19,856	4,144
Gasoline and oil	2,800	2,800	1,385	1,415
Legal fees	18,000	18,000	3,528	14,472
Accounting and auditing fees	52,000	52,000	36,030	15,970
Consultant fees	9,000	9,000	1,872	7,128
Planning fees	15,000	15,000	12,060	2,940
Data processing	4,200	4,200	4,102	98
Telephone	10,500	10,500	8,632	1,868
Transportation	3,000	3,000	2,316	684
Advertising and publications	15,500	15,500	15,352	148
General and workers' compensation insurance	49,050	49,050	38,950	10,100

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Utilities	\$ 32,500	\$ 32,500	\$ 33,108	\$ (608)
Property maintenance	46,500	46,500	49,599	(3,099)
County road maintenance	210,000	210,000	192,467	17,533
Special assessment projects	5,000	5,000	-	5,000
Memberships and dues	9,000	9,000	10,139	(1,139)
Education and training	4,000	4,000	2,756	1,244
Transfer to library	10,000	10,000	10,000	-
Capital outlay	-	-	774,708	(774,708)
Equipment rental	10,000	10,000	2,995	7,005
Equipment	20,000	20,000	23,476	(3,476)
Miscellaneous	8,362	51,648	24,453	27,195
Inspection fees	52,000	52,000	37,910	14,090
Transfers out	43,286	257,649	257,649	-
	<u>1,452,126</u>	<u>1,709,775</u>	<u>2,334,563</u>	<u>(624,788)</u>
Excess of Revenue Over (Under)				
Expenditures	18,327	(239,322)	(135,067)	104,255
Fund Balance - Beginning of year	<u>2,742,366</u>	<u>2,742,366</u>	<u>2,742,366</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,760,693</u>	<u>\$ 2,503,044</u>	<u>\$ 2,607,299</u>	<u>\$ 104,255</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2007

	Clay Township Police Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,858,635	\$ 1,858,635	\$ 1,858,681	\$ 46
Liquor license fee	9,700	9,700	9,100	(600)
Fines	20,500	20,500	21,635	1,135
Police reports	1,000	1,000	1,304	304
Dispatch fees	16,700	16,700	16,700	-
State training grant	44,000	44,000	42,024	(1,976)
Federal sources	-	-	1,552	1,552
Investment income	500	500	25,598	25,098
Other	18,400	18,400	29,395	10,995
	1,969,435	1,969,435	2,005,989	36,554
Expenditures				
Salaries and fringes	1,631,105	1,631,105	1,514,234	116,871
Legal fees	27,000	27,000	20,314	6,686
Insurance	74,000	74,000	61,945	12,055
Facility	25,100	25,100	23,121	1,979
Vehicles, equipment operation, and maintenance	77,950	77,950	53,816	24,134
Capital outlay	43,000	43,000	41,414	1,586
Other administrative fees	70,950	70,950	59,468	11,482
	1,949,105	1,949,105	1,774,312	174,793
Excess of Revenue Over Expenditures	20,330	20,330	231,677	211,347
Fund Balance - Beginning of year	172,576	172,576	172,576	-
Fund Balance - End of year	\$ 192,906	\$ 192,906	\$ 404,253	\$ 211,347

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Mainland Fire Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 407,593	\$ 439,381	\$ 437,671	\$ (1,710)
Federal sources	-	-	137,216	137,216
Investment income	2,000	2,000	11,282	9,282
Other	3,000	3,000	4,301	1,301
Total revenue	412,593	444,381	590,470	146,089
Expenditures				
Wages and fringes	146,350	146,350	132,696	13,654
Other current services	126,578	126,578	105,904	20,674
Capital outlay	36,450	36,450	152,243	(115,793)
Debt service	106,702	106,702	106,701	1
Total expenditures	416,080	416,080	497,544	(81,464)
Excess of Revenue Over (Under) Expenditures	(3,487)	28,301	92,926	64,625
Fund Balances - Beginning of year	178,817	178,817	178,817	-
Fund Balances - End of year	<u>\$ 175,330</u>	<u>\$ 207,118</u>	<u>\$ 271,743</u>	<u>\$ 64,625</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Rubbish Collection Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Investment income	\$ 125	\$ 125	\$ 1,175	\$ 1,050
Special assessment	571,000	571,000	562,162	(8,838)
Other	2,500	2,500	838	(1,662)
Total revenue	<u>573,625</u>	<u>573,625</u>	<u>564,175</u>	<u>(9,450)</u>
Expenditures				
Rubbish contract	553,472	553,472	513,235	40,237
Refund and other	10,000	10,000	-	10,000
Total expenditures	<u>563,472</u>	<u>563,472</u>	<u>513,235</u>	<u>50,237</u>
Excess of Revenue Over Expenditures	10,153	10,153	50,940	40,787
Fund Balances - Beginning of year	<u>45,402</u>	<u>45,402</u>	<u>45,402</u>	<u>-</u>
Fund Balances - End of year	<u><u>\$ 55,555</u></u>	<u><u>\$ 55,555</u></u>	<u><u>\$ 96,342</u></u>	<u><u>\$ 40,787</u></u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Harsen's Island Fire Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Property taxes	\$ 205,029	\$ 205,029	\$ 205,093	\$ 64
Investment income	400	400	2,709	2,309
Federal sources	-	-	147,234	147,234
Other	4,500	4,500	4,614	114
	<u>209,929</u>	<u>209,929</u>	<u>359,650</u>	<u>149,721</u>
Expenditures - Current				
Harsen's Island Fire	112,465	109,965	113,036	(3,071)
Capital outlay	8,300	28,400	175,022	(146,622)
Debt service	62,144	62,144	62,144	-
	<u>182,909</u>	<u>200,509</u>	<u>350,202</u>	<u>(149,693)</u>
Excess of Revenue Over Expenditures	27,020	9,420	9,448	28
Fund Balances - Beginning of year	<u>47,084</u>	<u>47,084</u>	<u>47,084</u>	<u>-</u>
Fund Balances - End of year	<u><u>\$ 74,104</u></u>	<u><u>\$ 56,504</u></u>	<u><u>\$ 56,532</u></u>	<u><u>\$ 28</u></u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Other Supplemental Information

Township of Clay

	Nonmajor Special Revenue Funds				
	D.A.R.E.	Drug Enforcement	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Assets					
Cash and investments	\$ 639	\$ 59,851	\$ 6,981	\$ 33,157	\$ 1,372
Special assessment receivable and other	-	-	-	-	-
Total assets	<u>\$ 639</u>	<u>\$ 59,851</u>	<u>\$ 6,981</u>	<u>\$ 33,157</u>	<u>\$ 1,372</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 17	\$ -
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	17	-
Fund Balances - Unreserved	<u>639</u>	<u>59,851</u>	<u>6,981</u>	<u>33,140</u>	<u>1,372</u>
Total liabilities and fund balances	<u>\$ 639</u>	<u>\$ 59,851</u>	<u>\$ 6,981</u>	<u>\$ 33,157</u>	<u>\$ 1,372</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Nonmajor Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
South Channel Lights	Road Maintenance	Explorer Program	Colony Road Assessment	
\$ -	\$ 51,029	\$ 1,023	\$ 520,027	\$ 674,079
-	-	-	312,962	312,962
\$ -	\$ 51,029	\$ 1,023	\$ 832,989	\$ 987,041
\$ -	\$ -	\$ -	\$ -	\$ 17
-	-	-	312,962	312,962
-	-	-	312,962	312,979
-	51,029	1,023	520,027	674,062
\$ -	\$ 51,029	\$ 1,023	\$ 832,989	\$ 987,041

Township of Clay

	Nonmajor Special Revenue Funds				
	D.A.R.E.	Drug Enforcement	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Revenue					
Property taxes	\$ -	\$ -	\$ 5,494	\$ -	\$ -
Charges for services	-	-	-	35,665	-
State grant	-	-	-	-	-
Investment income (loss)	8	671	79	(1,168)	-
Special assessments	-	-	-	-	1,259
Other	-	30,000	-	2,533	-
Total revenue	8	30,671	5,573	37,030	1,259
Expenditures					
Current:					
Drug enforcement	-	3,167	-	-	-
Oaklawn Cemetery	-	-	-	35,046	-
Special lighting	-	-	-	-	1,259
Road maintenance	-	-	-	-	-
Russell Island Fire	-	-	3,713	-	-
South Channel Lights	-	-	-	-	-
Debt service	-	-	-	257,649	-
Total expenditures	-	3,167	3,713	292,695	1,259
Excess of Revenue Over (Under) Expenditures	8	27,504	1,860	(255,665)	-
Other Financing Sources - Transfers in	-	-	-	257,649	-
Net Change in Fund Balances	8	27,504	1,860	1,984	-
Fund Balances - Beginning of year	631	32,347	5,121	31,156	1,372
Fund Balances - End of year	\$ 639	\$ 59,851	\$ 6,981	\$ 33,140	\$ 1,372

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Nonmajor Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
South Channel Lights	Road Maintenance	Explorer Program	Colony Road Assessment	
\$ -	\$ -	\$ -	\$ -	\$ 5,494
-	-	-	-	35,665
62,105	-	-	-	62,105
-	-	-	30,111	29,701
-	35,729	-	35,836	72,824
-	-	-	-	32,533
62,105	35,729	-	65,947	238,322
-	-	-	-	3,167
-	-	-	-	35,046
-	-	-	-	1,259
-	28,504	-	-	28,504
-	-	-	-	3,713
62,105	-	-	-	62,105
-	-	-	126,582	384,231
62,105	28,504	-	126,582	518,025
-	7,225	-	(60,635)	(279,703)
-	-	-	-	257,649
-	7,225	-	(60,635)	(22,054)
-	43,804	1,023	580,662	696,116
\$ -	\$ 51,029	\$ 1,023	\$ 520,027	\$ 674,062



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August 24, 2007

To Members of the Board
Township of Clay
4710 Pointe Tremble Road
Algonac, MI 48001

Dear Board Members:

We have recently completed our audit of the basic financial statements of Clay Township (the "Township") for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration:

Expenditure Reductions

We are pleased to report that the General Fund was able to reduce recurring expenditures from the prior year by approximately 10 percent. This decrease is due to the Township board's continued focus on reducing costs, including preparing payroll in-house. Also, the Police Fund was able to decrease salary and wage expenditures from the prior year by approximately \$200,000 due to a change in experience levels (due to retirement of senior officers and their replacement by new officers) and the settlement of a litigation that was expensed in the prior year. We encourage the Township to continue to focus on reducing costs throughout the Township.

Accounting System Conversion

This was the Township's first complete fiscal year using the new accounting and general ledger system. During the course of our audit, we continued to see increased automation of many accounting functions and utilization of the system by the Township to process and record financial data more efficiently and effectively. Some significant efficiencies gained are the in-house preparation of payroll, use of bank reconciliations in the system, and maintenance of special assessment records. We again compliment Township personnel on the implementation of the new system and the improvements in the efficiency of reporting and recordkeeping that resulted.

Water Fund

As you are aware, the Water Fund's cash position has continued to deteriorate over the last several years. This is due primarily to the significant annual debt service requirements combined with negative cash flows from operations. Cash flows generated by investments are positive, but they are not enough to offset the negative cash flows from the other categories. Although the principal and interest requirements will decrease over the remaining lives of the debt, these payments will continue to exceed \$600,000 annually through the year 2020. At the current rate of decline, it is foreseeable that the Water Fund could be in a cash deficit within the next three to five years. After considering the projection of the Water Fund presented to the board earlier in the year, the Township has increased several water fees in order to increase cash flow to the Water Fund as follows:

- Increased water supply and debt service charge from \$10 to \$20 per quarter
- Increased 3/4" tap-in fees from \$850 to \$1,900
- Increase 1" tap-in fees from \$1,000 to \$2,100
- Increased system benefit charge from \$900 to \$1,000
- Increased on/off charges from \$12 and \$24 to \$15 and \$30
- Increased extra unit charge from \$2 to \$5 per unit

We commend the Township for implementing this important step toward preserving cash in the Water Fund. We also remind you of the need for continued monitoring of the cash flow of the Water Fund and consideration of contingency plans to assist with immediate cash needs, such as a loan from the General Fund or revenue bond options, which should be discussed with your bond counsel.

Building Permits

Public Act 245 of 1999 requires establishing building-related fees (plumbing, electrical, mechanical, and building code inspection fees, etc.) that bear a relationship to the cost of providing the service, including overhead. Keeping in mind that overhead includes employees in different departments that assist in the building permit effort, as well as utility and facility costs, it would appear that the building permit-related fees are significantly less than the actual costs of providing the service, resulting in a loss of approximately \$110,000 in the current year. Accordingly, we encourage the Township to review the current building-related fees and associated costs to ensure fees are appropriate.

Retiree Health Care Benefits

As you are aware, the Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

The statement will be effective for the Township's year ending June 30, 2010. The Township has proactively established a separate fiduciary fund to save money for this future expense. The Township has also begun to save for this future expense by transferring money to MERS for investment. Over a long period, this should reduce the burden of funding the retiree health care burden.

It is also our understanding that the Township has implemented changes in the Township's health care plans, which may impact the results of the required actuarial study. In anticipation of the required 2010 implementation date, the Township should now consider updating the actuarial valuation performed a couple of years ago.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the Township's audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the Township's next financial statement audit. In addition, we plan to begin to work with the Township's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the Township's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the board will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

Report on Internal Controls

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the Township's financial management. Specifically, they require us to report internal control issues to you that that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new communication will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Township of Clay as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Accrual Adjustments

The elected officials of Clay Township and their staff maintain the books on a cash basis during the course of the year. If the Township's elected treasurer did not maintain the books throughout the year as she currently does, the Township would most likely need to hire a full-time degreed accountant to maintain the records. The Township treasurer has continued to assume increasing responsibilities for the calculating and posting of year-end accrual entries. The Township has enlisted our assistance in determining the remaining accrual adjustments to the accounting records at the end of the year. Accruals represent any adjustments other than cash that impact the accounting records (accounts payable, property tax and other receivables, capital assets, long-term debt, special assessments, etc.) Historically, the board has determined that the processes implemented by the Township result in the most cost-effective and value-added method of complying with the requirement for full-accrual statements, as the wages and fringe benefits associated with retaining an on-staff degreed accountant to evaluate all accrual adjustments has been weighed against the additional professional fees for this work. We are pleased to assist in this process as our staff have a high degree of expertise in accrual adjustments. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

Secondary Reviews

Secondary reviews are an important control that can help to detect errors in a timely manner by providing a fresh look at the financial data. During the course of our audit, we noted that secondary reviews are not regularly conducted of certain areas, such as payroll processing and bank reconciliations. We believe that a secondary review, including evidence through a sign off and date of this procedure, by another member of Township management or board could help to identify errors in a timely manner and improve overall controls at the Township.

We believe the following deficiency constitutes a significant deficiency:

Bank Reconciliations

During our interim procedures, we noted that the monthly bank reconciliations included an unreconciled difference each month ranging from \$30,000 to \$100,000. Township personnel believed that the unreconciled difference was related to the posting of payroll and the timing of the transfer to the payroll account. With our assistance, the unreconciled difference was verified as a timing difference in the posting of biweekly payroll to the general ledger as compared to the timing that payroll is transferred between bank accounts. This difference arose from the new accounting system implementation that initially occurred in the prior year. After our initial assistance in verifying the issue in the July 2006 bank reconciliation, the Township corrected the remaining bank reconciliations for the year. We suggest that the Township investigate similar unreconciled differences in the first month of occurrence and contact us if assistance is needed in order to correct it in a timely manner.

This communication is intended solely for the information and use of management, the board, and others within the Township, and is not intended to be and should not be used by anyone other than these specified parties.

To Members of the Board
Township of Clay

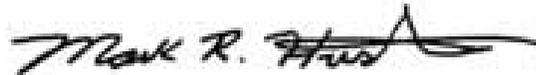
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August 24, 2007

We would like to thank Connie Turner and Kathy Boughner, as well as all of the Clay Township personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Mark R. Hurst". The signature is written in a cursive style with a long, sweeping horizontal line extending to the right.

Mark R. Hurst

A handwritten signature in black ink that reads "Lisa C. Manetta". The signature is written in a cursive style.

Lisa C. Manetta