



Dave Yost • Auditor of State

VILLAGE OF CLAY CENTER
OTTAWA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Clay Center
Ottawa County
420 Main Street, PO Box 52
Clay Center, Ohio 43408-0052

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Clay Center, Ottawa County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38

and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Clay Center, Ottawa County, Ohio as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

November 15, 2018

**Village of Clay Center
Ottawa County**

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2017*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$6,221			\$6,221
Municipal Income Tax	81,083	\$3,217	\$20,271	104,571
Intergovernmental	15,212	19,318		34,530
Special Assessments	100			100
Fines, Licenses and Permits	1,290			1,290
Earnings on Investments	330	801		1,131
Miscellaneous	5,196			5,196
<i>Total Cash Receipts</i>	<u>109,432</u>	<u>23,336</u>	<u>20,271</u>	<u>153,039</u>
Cash Disbursements				
Current:				
Security of Persons and Property	21,975			21,975
Leisure Time Activities	847			847
Basic Utility Services	21,824			21,824
Transportation	18,817	17,711		36,528
General Government	29,219	6,217		35,436
Capital Outlay			533	533
Debt Service:				
Principal Retirement			11,118	11,118
<i>Total Cash Disbursements</i>	<u>92,682</u>	<u>23,928</u>	<u>11,651</u>	<u>128,261</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>16,750</u>	<u>(592)</u>	<u>8,620</u>	<u>24,778</u>
Other Financing Receipts				
Other Debt Proceeds			505	505
Other Financing Sources			11,119	11,119
<i>Total Other Financing Receipts</i>			<u>11,624</u>	<u>11,624</u>
<i>Net Change in Fund Cash Balances</i>	16,750	(592)	20,244	36,402
<i>Fund Cash Balances, January 1</i>	<u>68,863</u>	<u>78,509</u>	<u>182,025</u>	<u>329,397</u>
Fund Cash Balances, December 31				
Restricted		77,917	34,494	112,411
Committed			167,775	167,775
Assigned	81,980			81,980
Unassigned	3,633			3,633
<i>Fund Cash Balances, December 31</i>	<u>\$85,613</u>	<u>\$77,917</u>	<u>\$202,269</u>	<u>\$365,799</u>

See accompanying notes to the basic financial statements.

Village of Clay Center
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

The Village of Clay Center (the Village), Ottawa County, Ohio is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides general government services, street maintenance and repair, park operations (leisure time activities), and police services. Fire protection and emergency medical services are provided by the Allen-Clay Joint Fire District which includes the Village.

Jointly Governed Organization and Public Entity Risk Pool

The Village participates in a jointly governed organization, the Allen-Clay Joint Fire District, and a public entity risk pool, the Public Entities Pool of Ohio (PEP). Notes 6 and 10 to the financial statements provide additional information for these entities. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Income Tax Fund This fund receives revenue from an income tax levied by the Village. The fund accounts for the expenses of collecting the tax and any carryover proceeds are allocated to the General Fund and Other Capital Projects Fund.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Other Capital Projects Fund This fund receives a portion of the Village Income Tax and is used to finance major capital projects.

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments.

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

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

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Capital Assets

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$90,250	\$109,432	\$19,182
Special Revenue	95,500	23,336	(72,164)
Capital Projects	15,000	31,895	16,895
Total	\$200,750	\$164,663	(\$36,087)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$162,163	\$92,682	\$69,481
Special Revenue	170,197	23,928	146,269
Capital Projects	197,787	11,651	186,136
Total	\$530,147	\$128,261	\$401,886

Note 4 – Deposits and Investments

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

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

	<u>2017</u>
Demand deposits	<u>\$281,063</u>
STAR Ohio	<u>84,736</u>
Total deposits and investments	<u><u>\$365,799</u></u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation. The Village's deposits are collateralized by the financial institution's public entity deposit pool.

Investments

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

Note 5 – Taxes

Property Taxes

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

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

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

Income Taxes

The Village levies a municipal income tax of 1.5% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Contrary to Village ordinances, the Clerk-Treasurer did not properly distribute income tax receipts.

Note 6 - Risk Management

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Village's share of these unpaid claims collectible in future years is approximately \$6,000.

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

<u>2017 Contributions to PEP</u>
\$10,195

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Social Security

Several of the Village's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$77,823	0%

In 2004, the Village received an interest free loan from the Ohio Public Works Commission (OPWC). The \$222,352 loan was for sanitary sewer improvements. The Village will repay the loan in semiannual installments of \$5,559 over 20 years. The loan is repaid from the Other Capital Projects fund.

Amortization

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

Year Ending December 31:	OPWC Loan
2018	\$11,118
2019	11,118
2020	11,118
2021	11,118
2022	11,118
2023-2024	22,233
Total	\$77,823

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Note 10 – Jointly Governed Organizations

Allen-Clay Joint Fire District (the District) is directed by an appointed four member Board of Trustees. Each political subdivision within the District appoints one Board member. Those subdivisions are Clay Township, Allen Township, the Village of Genoa, and the Village of Clay Center. The District provides fire protection and rescue services within the District and by contract to areas outside the District. Financial information can be obtained from Donald Murray, Fiscal Officer, Allen-Clay Joint Fire District, 3155 North Genoa-Clay Center Road, Genoa, Ohio 43430-9464.

Note 11 – Miscellaneous Revenues

During 2017, miscellaneous revenues in the General Fund consisted of rental contributions.

**Village of Clay Center
Ottawa County**

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$6,575	\$830		\$7,405
Municipal Income Tax	52,950	4,054	\$13,238	70,242
Intergovernmental	14,619	17,382		32,001
Charges for Services	5,196			5,196
Fines, Licenses and Permits	1,184			1,184
Earnings on Investments	303	367		670
<i>Total Cash Receipts</i>	<u>80,827</u>	<u>22,633</u>	<u>13,238</u>	<u>116,698</u>
Cash Disbursements				
Current:				
Security of Persons and Property	21,031			21,031
Leisure Time Activities	367			367
Basic Utility Services	22,503			22,503
Transportation	17,532	5,551		23,083
General Government	42,199	7,040		49,239
Capital Outlay			14,450	14,450
Debt Service:				
Principal Retirement			11,118	11,118
<i>Total Cash Disbursements</i>	<u>103,632</u>	<u>12,591</u>	<u>25,568</u>	<u>141,791</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(22,805)</u>	<u>10,042</u>	<u>(12,330)</u>	<u>(25,093)</u>
Other Financing Receipts				
Sale of Capital Assets			5,875	5,875
Other Financing Sources	32		11,118	11,150
<i>Total Other Financing Receipts</i>	<u>32</u>		<u>16,993</u>	<u>17,025</u>
<i>Net Change in Fund Cash Balances</i>	<u>(22,773)</u>	<u>10,042</u>	<u>4,663</u>	<u>(8,068)</u>
<i>Fund Cash Balances, January 1</i>	<u>91,636</u>	<u>68,467</u>	<u>177,362</u>	<u>337,465</u>
Fund Cash Balances, December 31				
Restricted		78,509	33,989	112,498
Committed			148,036	148,036
Assigned	68,863			68,863
<i>Fund Cash Balances, December 31</i>	<u>\$68,863</u>	<u>\$78,509</u>	<u>\$182,025</u>	<u>\$329,397</u>

See accompanying notes to the basic financial statements.

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

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Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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Fund Accounting

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Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Income Tax Fund This fund receives revenue from an income tax levied by the Village. The fund accounts for the expenses of collecting the tax and any carryover proceeds are allocated to the General Fund and Other Capital Projects Fund.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Other Capital Projects Fund This fund receives a portion of the Village Income Tax and is used to finance major capital projects.

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments.

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

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

A summary of 2016 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Capital Assets

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$93,800	\$80,859	(\$12,941)
Special Revenue	100,000	22,633	(77,367)
Capital Projects	16,000	30,231	14,231
Total	<u>\$209,800</u>	<u>\$133,723</u>	<u>(\$76,077)</u>

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$198,285	\$103,632	\$94,653
Special Revenue	182,022	12,591	169,431
Capital Projects	166,957	25,568	141,389
Total	<u>\$547,264</u>	<u>\$141,791</u>	<u>\$405,473</u>

Note 4 – Deposits and Investments

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

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

	2016
Demand deposits	<u>\$245,520</u>
STAR Ohio	<u>83,877</u>
Total deposits and investments	<u><u>\$329,397</u></u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Investments

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

Note 5 – Taxes

Property Taxes

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

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

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

Income Taxes

The Village levies a municipal income tax of 1.5% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Contrary to Village ordinances, the Clerk-Treasurer did not properly distribute income tax receipts.

Note 6 - Risk Management

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Village's share of these unpaid claims collectible in future years is approximately \$6,000.

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

<u>2016 Contributions to PEP</u>
\$10,282

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Social Security

Several of the Village's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$88,941	0%

In 2004, the Village received an interest free loan from the Ohio Public Works Commission (OPWC). The \$222,352 loan was for sanitary sewer improvements. The Village will repay the loan in semiannual installments of \$5,559 over 20 years. The loan is repaid from the Capital Projects fund.

Amortization

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

Year Ending December 31:	OPWC Loan
2017	\$11,118
2018	11,118
2019	11,118
2020	11,118
2021	11,118
2022-2024	33,351
Total	\$88,941

Village of Clay Center
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 10 – Jointly Governed Organizations

Allen-Clay Joint Fire District (the District) is directed by an appointed four member Board of Trustees. Each political subdivision within the District appoints one Board member. Those subdivisions are Clay Township, Allen Township, the Village of Genoa, and the Village of Clay Center. The District provides fire protection and rescue services within the District and by contract to areas outside the District. Financial information can be obtained from Donald Murray, Fiscal Officer, Allen-Clay Joint Fire District, 3155 North Genoa-Clay Center Road, Genoa, Ohio 43430-9464.



Dave Yost • Auditor of State

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

Village of Clay Center
Ottawa County
420 Main Street, P.O. Box 52
Clay Center, Ohio 43408-0052

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Clay Center, Ottawa County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated November 15, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-002.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

November 15, 2018

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 (codified as GASB Cod 1800.165-.179) requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources. We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2017:

- General Fund balance for subsequent year appropriations in excess of estimated receipts was incorrectly classified as unassigned instead of assigned fund balance in the amount of \$81,980.
- Estimated receipts and appropriations in the budgetary note to the financial statements did not agree to amounts approved by \$45,000 and \$40,000, respectively, in the Special Revenue Fund.
- Capital Projects Fund committed fund balance in the amount of \$167,775 was incorrectly classified as restricted.

We also identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2016:

- General Fund balance for subsequent year appropriations in excess of estimated receipts was incorrectly classified as unassigned instead of assigned fund balance in the amount of \$68,863.
- Sale of capital assets in the Capital Projects Fund in the amount of \$5,875 was incorrectly classified as other debt proceeds.
- Capital Projects Fund committed fund balance in the amount of \$148,036 was incorrectly classified as restricted.
- Permissive motor vehicle license tax was incorrectly classified as intergovernmental revenue instead of property and other local taxes in the amount of \$830.

These errors were not identified and corrected prior to the Village preparing its financial statements due to deficiencies in the Village's internal controls over financial statement monitoring. As a result, the Village's financial statements and notes to the financial statements did not correctly reflect the financial activity of the Village. The accompanying financial statements and notes to the financial statements have been adjusted to correct these and other errors. Additional errors were noted in smaller relative amounts.

To help ensure the Village's financial statements and notes to the financial statements are complete and accurate, Council should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the Clerk-Treasurer and Council to help identify and correct errors and omissions. The Clerk-Treasurer should also review Auditor of State Bulletin 2011-004 at the following website address for information on Governmental Accounting Standards Board Statement No. 54: <http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

FINDING NUMBER 2017-002

Noncompliance Citation and Material Weakness – Income Tax Allocation

Village of Clay Center Ordinance 8-2015, approved on December 14, 2015, provides in part that income taxes should be deposited and divided and transferred in the following manner: All funds derived from the collection of the village income tax are kept in a separate fund. All funds collected in the income tax fund be divided and transferred at least once a year as following: After the funds needed to operate the Village income tax fund, the remaining funds shall be divided and transferred 80% to the General Fund and 20% to the Other Capital Projects Fund.

2016 and 2017 income tax receipts were not allocated in accordance with the respective ordinance above. The ordinance required transferring the remaining funds in the income tax fund of \$101,354 and \$66,188 in 2017, and 2016, respectively. The Village incorrectly distributed \$93,000 and \$70,000 in 2017, and 2016, respectively. The following table summarizes the allocation as required by ordinance compared to the actual allocations made during 2016 and 2017:

	<u>Income Tax Fund</u>	<u>General Fund</u>	<u>Other Capital Projects Fund</u>
<i>For the year ended December 31, 2017:</i>			
Total receipts subject to distribution	\$101,354		
Required Distribution		\$81,083	\$20,271
Actual Distribution	<u>(93,000)</u>	<u>(74,400)</u>	<u>(18,600)</u>
Variance	<u>\$8,354</u>	<u>\$6,683</u>	<u>\$1,671</u>
<i>For the year ended December 31, 2016:</i>			
Total receipts subject to distribution	\$66,188		
Required Distribution		\$52,950	\$13,238
Actual Distribution	<u>(70,000)</u>	<u>(56,000)</u>	<u>(14,000)</u>
Variance	<u>(\$3,812)</u>	<u>(\$3,050)</u>	<u>(\$762)</u>

These errors were not identified and corrected prior to the Village preparing its financial statements due to deficiencies in the Village's internal controls over income tax allocation monitoring. The accompanying financial statements and notes to the financial statements and the Village's accounting records have been adjusted to reflect these changes. Sound financial reporting is the responsibility of the Clerk-Treasurer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Village's financial statements and notes to the statements are accurate, the Village should adopt policies and procedures to help ensure all income tax receipts are allocated in accordance with ordinances approved by Village Council.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

Village of Clay Center

Ottawa County

420 Main Street

P.O. Box 52

Clay Center, Ohio 43408

Phone: 419-855-7444 Fax: 419-855-7444

EMAIL: ottclaycenter@yahoo.com

Mark Franks – Mayor

John Weber – Clerk-Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	This finding was first reported in 2014. Material weakness and noncompliance with Village of Clay Center Ordinance 8-2015 over the proper distribution of income taxes	Not corrected and reissued as finding 2017-002 in this report.	The Village declined the opportunity to respond and therefore did not provide reasoning for the continuation of this comment.
2015-002	This finding was first reported in 2014. Material weakness for lack of monitoring of financial transactions resulting in errors in the financial statements.	Not corrected and reissued as finding 2017-001 in this report.	The Village declined the opportunity to respond and therefore did not provide reasoning for the continuation of this comment.

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Dave Yost • Auditor of State

VILLAGE OF CLAY CENTER

OTTAWA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 4, 2018