



**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF CLAY CENTER
OTTAWA COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Clay Center
Ottawa County
420 Main Street, P.O. Box 92
Clay Center, Ohio 43408-0092

To the Village Council:

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

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

Mary Taylor, CPA
Auditor of State

July 31, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Clay Center
Ottawa County
420 Main Street, P.O. Box 92
Clay Center, Ohio 43408-0092

To the Village Council:

We have audited the accompanying financial statements of the Village of Clay Center, Ottawa County, (the Village) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Clay Center, Ottawa County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

July 31, 2008

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Local Taxes	\$6,630			\$6,630
Municipal Income Tax		\$62,523		62,523
Intergovernmental	25,814	15,972		41,786
Special Assessments			\$16,676	16,676
Charges for Services	4,301			4,301
Fines, Licenses and Permits	993			993
Earnings on Investments	8,726	725		9,451
Miscellaneous	4,592			4,592
Total Cash Receipts	51,056	79,220	16,676	146,952
Cash Disbursements:				
Current:				
Security of Persons and Property	15,889	1,329		17,218
Public Health Services	781			781
Leisure Time Activities	1,926			1,926
Community Environment	91			91
Basic Utility Service	18,026			18,026
Transportation	4,362	6,154		10,516
General Government	27,912	2,906		30,818
Debt Service:				
Redemption of Principal			20,298	20,298
Interest and Fiscal Charges			952	952
Capital Outlay		6,535	13,799	20,334
Total Cash Disbursements	68,987	16,924	35,049	120,960
Total Cash Receipts Over/(Under) Cash Disbursements	(17,931)	62,296	(18,373)	25,992
Other Financing Receipts / (Disbursements):				
Sale of Fixed Assets	3,000			3,000
Advances-In			4,000	4,000
Advances-Out	(4,000)			(4,000)
Total Other Financing Receipts / (Disbursements)	(1,000)		4,000	3,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(18,931)	62,296	(14,373)	28,992
Fund Cash Balances, January 1	135,226	36,700	33,493	205,419
Fund Cash Balances, December 31	\$116,295	\$98,996	\$19,120	\$234,411
Reserve for Encumbrances, December 31	\$122			\$122

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$6,641			\$6,641
Municipal Income Tax		\$69,146		69,146
Intergovernmental	24,994	16,587		41,581
Charges for Services	4,300			4,300
Fines, Licenses and Permits	1,207			1,207
Earnings on Investments	8,090	247		8,337
Miscellaneous	4,034	1		4,035
	<u>49,266</u>	<u>85,981</u>		<u>135,247</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	16,816	1		16,817
Public Health Services	819			819
Leisure Time Activities	3,710			3,710
Community Environment	114			114
Basic Utility Service	18,797			18,797
Transportation	4,331	8,264		12,595
General Government	32,355	2,761		35,116
Debt Service:				
Redemption of Principal			\$25,363	25,363
Interest and Fiscal Charges			1,384	1,384
Capital Outlay		1,128	25,892	27,020
	<u>76,942</u>	<u>12,154</u>	<u>52,639</u>	<u>141,735</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(27,676)</u>	<u>73,827</u>	<u>(52,639)</u>	<u>(6,488)</u>
Other Financing Receipts / (Disbursements):				
Transfers-In	27,500		27,500	55,000
Transfers-Out		(55,000)		(55,000)
Advances-In	2,000		8,716	10,716
Advances-Out	(8,716)	(2,000)		(10,716)
Other Financing Uses	(630)			(630)
	<u>20,154</u>	<u>(57,000)</u>	<u>36,216</u>	<u>(630)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,522)	16,827	(16,423)	(7,118)
Fund Cash Balances, January 1	<u>142,748</u>	<u>19,873</u>	<u>49,916</u>	<u>212,537</u>
Fund Cash Balances, December 31	<u>\$135,226</u>	<u>\$36,700</u>	<u>\$33,493</u>	<u>\$205,419</u>
Reserve for Encumbrances, December 31	<u>\$3,156</u>	<u>\$63</u>		<u>\$3,219</u>

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Clay Center, Ottawa County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government service including park operations and police services. Fire protection and emergency medical services are provided by the Allen-Clay Joint Fire District which includes the Village.

The Village participates in a public entity risk pool. Notes 8 to the financial statements provides additional information for this entity. This organization is:

Public Entities Pool of Ohio (the "Pool"):
The pool provides property and casualty insurance to its members.

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

B. Accounting Basis

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

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

C. Cash 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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant special revenue fund:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

3. Capital Project Funds

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

Capital Projects Fund - This fund receives special assessments used to repay loans obtained for a sanitary sewer improvements.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. Property, Plant, and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2007	2006
Demand deposits	\$55,349	\$79,903
STAR Ohio	179,062	125,516
Total deposits and investments	\$234,411	\$205,419

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$79,304	\$54,056	(\$25,248)
Special Revenue	73,099	79,220	6,121
Capital Projects	40,133	16,676	(23,457)
Total	\$192,536	\$149,952	(\$42,584)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$100,486	\$69,109	\$31,377
Special Revenue	70,933	16,924	54,009
Capital Projects	61,250	35,049	26,201
Total	\$232,669	\$121,082	\$111,587

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$70,827	\$76,766	\$5,939
Special Revenue	74,355	85,981	11,626
Capital Projects	27,500	27,500	
Total	\$172,682	\$190,247	\$17,565

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$107,351	\$80,728	\$26,623
Special Revenue	81,839	67,217	14,622
Capital Projects	70,559	52,639	17,920
Total	\$259,749	\$200,584	\$59,165

Budgetary expenditures exceeded appropriation authority in the Street Construction, Maintenance, and Repair Fund by \$2,655 and the Police Grant Fund by \$649 for the year ended December 31, 2006.

The Fiscal Officer did not properly certify expenditures prior to their obligations.

4. PROPERTY TAX

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.

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

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. LOCAL INCOME TAX

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.

6. DEBT

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan - Sanitary	\$188,997	0%
Ohio Public Works Commission Loan - Roads	\$32,448	0%
Genoa Board of Education Note	16,602	4.5%
Total	<u>\$238,047</u>	

In 2004, the Village received two interest free loans from the Ohio Public Works Commission. The \$222,352 loan was for sanitary improvements. The \$46,353 loan was for Williams, Susan, and Third Street resurfacing and repair. The Village will repay the \$222,352 loan in semiannual installments of \$5,559 over 20 years. The Village will repay the \$46,353 loan in semiannual installments of \$2,318 over 10 years. The 222,352 loan is payable through special assessments to the property owners benefited. The \$46,353 loan is the responsibility of the Village.

The Village has a loan with the Genoa Board of Education for the purchase of land. The Village will repay the loan in annual installments of \$5,497, including interest over 10 years.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. DEBT – (CONTINUED)

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

Year ending December 31:	OPWC Loan - Sanitary	OPWC Loan - Roads	Genoa Board of Education Note
2008	\$11,118	\$4,635	\$5,497
2009	11,118	4,635	5,497
2010	11,118	4,635	5,497
2011	11,118	4,635	1,700
2012	11,118	4,635	
2013 – 2017	55,588	9,273	
2018 – 2022	55,588		
2023 – 2024	22,231		
Total	\$188,997	\$32,448	\$18,191

7. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

8. 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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

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

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$9,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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>Contributions to PEP</u>	
2005	\$8,757
2006	\$8,701
2007	\$8,012

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



Mary Taylor, CPA

Auditor of State

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

Village of Clay Center
Ottawa County
420 Main Street, P.O. Box 92
Clay Center, Ohio 43408-0092

To the Village Council:

We have audited the financial statements of the Village of Clay Center, Ottawa County, (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 31, 2008, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

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

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

We also noted certain matters that we reported to the Village's management in a separate letter dated July 31, 2008.

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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-004.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated July 31, 2008.

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



Mary Taylor, CPA
Auditor of State

July 31, 2008

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

At December 31, 2006, the following funds had expenditures exceeding appropriations:

Fund Type/Funds	Appropriations	Expenditures	Excess
Special Revenue Fund Type:			
Street Construction, Maintenance, and Repair Fund	\$8,633	\$11,288	(\$2,655)
Police Grant Fund		649	(649)

Management was advised the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures to exceed available resources, further resulting in deficit spending practices.

The Clerk-Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk-Treasurer may request the Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary

FINDING NUMBER 2007-002

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.10 (D) states all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. During the audit period the Clerk-Treasurer posted income tax receipts, gasoline tax receipts, motor vehicle license receipts, and permissive license tax receipts to the wrong funds.

We adjusted the accompanying financial statements for these receipts in the Street Construction, Maintenance and Repair Fund by (\$1,017); the General Fund by \$754; the Permissive Tax Fund by \$115; and the Municipal Income Tax Fund by \$148 in fiscal year 2007. In fiscal year 2006, we adjusted the accompanying financial statements for these receipts in the General Fund by (\$1,956); the Street Maintenance and Repair Fund by \$513; the Municipal Income Tax Fund by \$1,699; and the Capital Project Fund by (\$256).

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

**FINDING NUMBER 2007-002
 (Continued)**

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

FINDING NUMBER 2007-003

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund is established.

During 2007, the Clerk-Treasurer expended \$1,634 from the Street Maintenance and Repair Fund to pay for mosquito spray.

The purchase of mosquito spray is not an acceptable expenditure from the Street Maintenance and Repair Fund. The Clerk-Treasurer made the following audit adjustment to the accompanying financial statements:

Fund	Fund Balance 12/31/07	Adjustment	Adjusted Fund Balance 12/31/07
General Fund	\$119,130	(\$1,634)	\$117,496
Street Maintenance and Repair Fund	19,812	1,634	21,446

The practice of paying costs from a fund not related to those costs could cause material misstatements in the financial statements. Also, the Clerk-Treasurer might not have the resources to record the proper adjustment when discovered at a later date.

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The clerk-treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a clerk-treasurer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**FINDING NUMBER 2007-004
(Continued)**

1. **“Then and Now” certificate** – If the clerk-treasurer can certify that both at the time that the contract or order was made (“then”), and at the time that the clerk-treasurer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village Council has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This exception does not eliminate any otherwise applicable requirement for approval of expenditures by the Village Council.

2. **Blanket Certificate** – Clerk-Treasurer officers may prepare “blanket” certificates for a sum not exceeding an amount established by resolution or ordinance by the members of the legislative authority against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Clerk-Treasurer did not properly certify the availability of funds prior to purchase commitment for 20 percent of expenditures tested and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend the Clerk-Treasurer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used, with appropriate legislative approval following within thirty days.

We recommend the Village certify all purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41 (D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Rev. Code Section 5705.41 (B) - Expenditures exceed appropriations	No	Not Corrected, repeated as 2007-001
2005-002	Ohio Rev. Code Section 5705.39 – Appropriations exceeded estimated revenues available for expenditures	Yes	



Mary Taylor, CPA
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
AUGUST 26, 2008**