



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, P.O. 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, 2015 and 2014.

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 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 1 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, 2015 and 2014, or 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 combined cash balances of the Village of Clay Center, Ottawa County, Ohio as of December 31, 2015 and 2014, and its combined cash receipts and disbursements 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 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017, 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

January 26, 2017

**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, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$7,073	\$780		\$7,853
Municipal Income Tax	61,447	3,426	\$15,362	80,235
Intergovernmental	13,712	17,707		31,419
Fines, Licenses and Permits	1,174			1,174
Earnings on Investments	158	170		328
Miscellaneous	4,845			4,845
<i>Total Cash Receipts</i>	<u>88,409</u>	<u>22,083</u>	<u>15,362</u>	<u>125,854</u>
Cash Disbursements				
Current:				
Security of Persons and Property	11,476	160		11,636
Leisure Time Activities	2,337			2,337
Basic Utility Services	23,555			23,555
Transportation	8,833	4,400		13,233
General Government	38,247	6,426		44,673
Debt Service:				
Principal Retirement			11,118	11,118
<i>Total Cash Disbursements</i>	<u>84,448</u>	<u>10,986</u>	<u>11,118</u>	<u>106,552</u>
<i>Excess of Receipts Over Disbursements</i>	3,961	11,097	4,244	19,302
Other Financing Receipts				
Other Financing Sources			11,118	11,118
<i>Net Change in Fund Cash Balances</i>	3,961	11,097	15,362	30,420
<i>Fund Cash Balances, January 1</i>	<u>87,675</u>	<u>57,370</u>	<u>162,000</u>	<u>307,045</u>
Fund Cash Balances, December 31				
Restricted		68,467	28,114	96,581
Committed			149,248	149,248
Assigned	91,636			91,636
<i>Fund Cash Balances, December 31</i>	<u>\$91,636</u>	<u>\$68,467</u>	<u>\$177,362</u>	<u>\$337,465</u>

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

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, 2014**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$7,072	\$851		\$7,923
Municipal Income Tax	42,805	4,006	\$42,804	89,615
Intergovernmental	21,422	16,922		38,344
Fines, Licenses and Permits	1,180			1,180
Earnings on Investments	153	123		276
Miscellaneous	4,728			4,728
<i>Total Cash Receipts</i>	<u>77,360</u>	<u>21,902</u>	<u>42,804</u>	<u>142,066</u>
Cash Disbursements				
Current:				
Security of Persons and Property	12,488	300		12,788
Leisure Time Activities	577			577
Basic Utility Services	24,608			24,608
Transportation	8,922	17,240		26,162
General Government	41,568	6,769		48,337
Capital Outlay			39,138	39,138
Debt Service:				
Principal Retirement			15,753	15,753
<i>Total Cash Disbursements</i>	<u>88,163</u>	<u>24,309</u>	<u>54,891</u>	<u>167,363</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(10,803)</u>	<u>(2,407)</u>	<u>(12,087)</u>	<u>(25,297)</u>
Other Financing Receipts (Disbursements)				
Transfers In	4,399		4,399	8,798
Transfers Out		(8,798)		(8,798)
Other Financing Sources			16,676	16,676
<i>Total Other Financing Receipts (Disbursements)</i>	<u>4,399</u>	<u>(8,798)</u>	<u>21,075</u>	<u>16,676</u>
<i>Net Change in Fund Cash Balances</i>	<u>(6,404)</u>	<u>(11,205)</u>	<u>8,988</u>	<u>(8,621)</u>
<i>Fund Cash Balances, January 1</i>	<u>94,079</u>	<u>68,575</u>	<u>153,012</u>	<u>315,666</u>
Fund Cash Balances, December 31				
Restricted		57,370	28,114	85,484
Committed			133,886	133,886
Assigned	77,971			77,971
Unassigned	9,704			9,704
<i>Fund Cash Balances, December 31</i>	<u>\$87,675</u>	<u>\$57,370</u>	<u>\$162,000</u>	<u>\$307,045</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, 2015 AND 2014**

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, Ohio (the Village) as a body corporate and politic. 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. Allen-Clay Joint Fire District provides fire protection and emergency services to the Village.

The Village participates in a public entity risk pool and a jointly governed organization. Notes 8 and 10 to the financial statements provide additional information for these entities. These organizations are:

Public Entity Risk Pool:

The Public Entities Pool of Ohio provides property and casualty insurance to its members.

Jointly Governed Organization:

Allen-Clay Joint Fire District provides fire protection and rescue services.

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 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 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. 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.

Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31.

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:

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

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

Street Construction, Maintenance, and Repair Fund – This 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.

Other Special Revenue/GRANT Fund – This fund is used to account for a grant from OSS Solid Waste District.

3. Capital Project Funds

These funds account for and report financial resources that are restricted or committed 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.

E. Budgetary Process

The Ohio Revised Code requires 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. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must 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 canceled, and reappropriated in the subsequent year.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

A summary of 2015 and 2014 budgetary activity appears in Note 3.

F. 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:

1. Nonspendable

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

2. 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.

3. 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.

4. 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.

5. 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.

G. 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.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

2. EQUITY IN POOLED 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:

	2015	2014
Demand deposits	\$253,998	\$223,654
STAR Ohio	83,467	83,391
Total deposits and investments	\$337,465	\$307,045

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

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 ended December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$67,300	\$88,409	\$21,109
Special Revenue	95,000	22,083	(72,917)
Capital Projects	48,500	26,480	(22,020)
Total	\$210,800	\$136,972	(\$73,828)

2015 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$145,271	\$84,448	\$60,823
Special Revenue	194,117	10,986	183,131
Capital Projects	178,457	11,118	167,339
Total	\$517,845	\$106,552	\$411,293

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$73,000	\$81,759	\$8,759
Special Revenue	95,000	21,902	(73,098)
Capital Projects	48,500	63,879	15,379
Total	\$216,500	\$167,540	(\$48,960)

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$159,975	\$88,163	\$71,812
Special Revenue	149,170	33,107	116,063
Capital Projects	183,456	54,891	128,565
Total	\$492,601	\$176,161	\$316,440

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.

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

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.

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

6. DEBT

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$100,059	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 of the above debt is scheduled as follows:

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

Year ending	OPWC Loan
December 31:	
2016	\$11,118
2017	11,118
2018	11,118
2019	11,118
2020	11,118
2021-2025	44,470
Total	<u>\$100,059</u>

7. RETIREMENT SYSTEMS

A. Ohio Public Employees Retirement System

The Village's employees generally 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.

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

B. Social Security

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

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, 2015.

8. RISK MANAGEMENT

Risk Pool Membership

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

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, 2015, 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, 2014 and 2015:

	<u>2014</u>	<u>2015</u>
Assets	\$35,402,177	\$38,307,677
Liabilities	(12,363,257)	(12,759,127)
Net Position	<u>\$23,038,920</u>	<u>\$25,548,550</u>

At December 31, 2014 and 2015, respectively, the liabilities above include approximately 11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, 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>Contributions to PEP</u>	
<u>2014</u>	<u>2015</u>
\$9,941	\$10,167

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.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

9. MISCELLANEOUS RECEIPTS

During 2015 and 2014 General Fund Miscellaneous receipts consisted of rental contributions.

10. JOINTLY GOVERNED ORGANIZATION

Allen-Clay Joint Fire District

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, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated January 26, 2017 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 2015-001 and 2015-002 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 2015-001.

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 communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 26, 2017

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-001

Noncompliance Citation / Material Weakness - Income Tax Allocation

The Village has several authoritative sources dictating the allocation of its income tax revenues.

Ordinance 3-2014, approved by the Village Council on November 10, 2014, 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 50% to the General Fund and 50% to the Other Capital Projects Fund.

Ordinance 8-2015, approved by the Village Council 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.

2015 and 2014 income tax receipts were not allocated in accordance with the respective ordinance above. The following table summarizes the allocation as required by ordinance compared to the actual allocations made during the years ended December 31, 2015 and 2014:

	Income Tax Fund	General Fund	Other Capital Projects Fund
<i>For the year ended December 31, 2015:</i>			
Total receipts subject to distribution	\$ 76,809		
Required Distribution		\$ 61,447	\$ 15,362
Actual Distribution	105,000	84,000	21,000
Variance	\$ (28,191)	\$ (22,553)	\$ (5,638)
<i>For the year ended December 31, 2014:</i>			
Total receipts subject to distribution	\$ 85,609		
Required Distribution		\$ 42,805	\$ 42,804
Actual Distribution	52,660	37,500	15,160
Variance	\$ 32,949	\$ 5,305	\$ 27,644

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 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.

**FINDING NUMBER 2015-001
(Continued)**

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

FINDING NUMBER 2015-002

Material Weakness – Financial Reporting

We identified errors such as the following requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- General Fund Miscellaneous receipts in the amount of \$4,845 were incorrectly classified as Charges for Services;
- General Fund Unassigned fund balance in the amount of \$91,636 was reclassified to Assigned in order to properly reflect the excess of subsequent year appropriations over estimated receipts in accordance with GASB 54; and
- Capital Projects Fund Type Restricted fund balance in the amount of \$149,248 was reclassified to Committed in accordance with GASB 54.

We also identified errors such as the following requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2014:

- General Fund Miscellaneous receipts in the amount of \$4,728 were incorrectly classified as Charges for Services;
- General Fund Unassigned fund balance in the amount of \$77,971 was reclassified to Assigned in order to properly reflect the excess of subsequent year appropriations over estimated receipts in accordance with GASB 54;
- General Fund appropriations (budgeted expenditures) were decreased \$8,434 in order to bring the accounting system and notes to the financial statements in line with authorized budget amounts;
- Special Revenue Fund Type appropriations (budgeted expenditures) were decreased \$36,745 in order to bring the accounting system and notes to the financial statements in line with authorized budget amounts;
- Capital Projects Fund Type appropriations (budgeted expenditures) were increased \$5,613 in order to bring the accounting system and notes to the financial statements in line with authorized budget amounts; and
- Capital Projects Fund Type Restricted fund balance in the amount of \$133,886 was reclassified to Committed in accordance with GASB 54.

**FINDING NUMBER 2015-002
(Continued)**

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. The accompanying financial statements and notes to the financial statements, and where applicable, 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 complete and accurate, the Village should adopt policies and procedures, including a final review of the statement and notes by the Clerk-Treasurer, to identify and correct errors and omissions. The Clerk-Treasurer can refer to 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>. Additionally, the Clerk-Treasurer can refer to the Village Officer's Handbook at the following website address for guidance on the recording of transactions: <http://www.ohioauditor.gov/publications/Final%20Village%20Officers%20Handbook%202016.pdf>.

Officials' Response:

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

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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
FEBRUARY 14, 2017