



Mary Taylor, CPA
Auditor of State

VILLAGE OF CLAY CENTER
OTTAWA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings	18

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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 a February 2, 2005, 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 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 12, 2007

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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, 2005 and 2004. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. 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 January 12, 2007, 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

January 12, 2007

**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, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$7,041			\$7,041
Municipal Income Tax		\$60,850		60,850
Special Assessments			\$11,118	11,118
Intergovernmental Receipts	23,935	12,386		36,321
Charges for Services	4,000			4,000
Fines, Licenses, and Permits	1,786			1,786
Earnings on Investments	4,622	448		5,070
Miscellaneous	1,943			1,943
	<u>43,327</u>	<u>73,684</u>	<u>11,118</u>	<u>128,129</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	18,289			18,289
Public Health Services	999			999
Leisure Time Activities	3,487			3,487
Community Environment	175			175
Basic Utility Services	18,374			18,374
Transportation	4,045	3,175		7,220
General Government	25,491	3,682		29,173
Debt Service:				
Principal Payments			25,146	25,146
Interest Payments			1,798	1,798
Capital Outlay		110	14,950	15,060
	<u>70,860</u>	<u>6,967</u>	<u>41,894</u>	<u>119,721</u>
Total Receipts Over/(Under) Disbursements	<u>(27,533)</u>	<u>66,717</u>	<u>(30,776)</u>	<u>8,408</u>
Other Financing Receipts and (Disbursements):				
Transfers-In	27,500	92	27,500	55,092
Transfers-Out		(55,092)		(55,092)
	<u>27,500</u>	<u>(55,000)</u>	<u>27,500</u>	
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(33)	11,717	(3,276)	8,408
Fund Cash Balances, January 1	<u>142,781</u>	<u>8,156</u>	<u>53,192</u>	<u>204,129</u>
Fund Cash Balances, December 31	<u>\$142,748</u>	<u>\$19,873</u>	<u>\$49,916</u>	<u>\$212,537</u>
Reserves for Encumbrances, December 31	<u>\$5,021</u>	<u>\$969</u>	<u>\$5,559</u>	<u>\$11,549</u>

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, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$9,416			\$9,416
Municipal Income Tax		\$70,520		70,520
Intergovernmental Receipts	23,861	24,791	\$90,984	139,636
Charges for Services	3,900			3,900
Fines, Licenses, and Permits	1,185			1,185
Earnings on Investments	1,906	193		2,099
Miscellaneous	3,126	219		3,345
Total Cash Receipts	<u>43,394</u>	<u>95,723</u>	<u>90,984</u>	<u>230,101</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	15,479	94		15,573
Public Health Services	814			814
Leisure Time Activities	2,054			2,054
Community Environment	200			200
Basic Utility Services	16,695	94		16,789
Transportation	3,963	10,012		13,975
General Government	38,121	3,419	369	41,909
Debt Service:				
Principal Payments			3,540	3,540
Interest Payments			1,957	1,957
Capital Outlay		36,719	386,902	423,621
Total Cash Disbursements	<u>77,326</u>	<u>50,338</u>	<u>392,768</u>	<u>520,432</u>
Total Receipts Over/(Under) Disbursements	<u>(33,932)</u>	<u>45,385</u>	<u>(301,784)</u>	<u>(290,331)</u>
Other Financing Receipts and (Disbursements):				
Loan Proceedses			268,705	268,705
Sale of Fixed Asset	4,100			4,100
Transfers-In	39,478		39,478	78,956
Advances-In	54,710	14,710		69,420
Transfers-Out		(78,956)		(78,956)
Advances-Out	(14,710)	(14,710)	(40,000)	(69,420)
Total Other Financing Receipts/(Disbursements)	<u>83,578</u>	<u>(78,956)</u>	<u>268,183</u>	<u>272,805</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	49,646	(33,571)	(33,601)	(17,526)
Fund Cash Balances, January 1	<u>93,135</u>	<u>41,727</u>	<u>86,793</u>	<u>221,655</u>
Fund Cash Balances, December 31	<u>\$142,781</u>	<u>\$8,156</u>	<u>\$53,192</u>	<u>\$204,129</u>
Reserves for Encumbrances, December 31	<u>\$1,669</u>			<u>\$1,669</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, 2005 AND 2004**

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 governs the Village. The Village provides general government services including park operations and police services. Fire protection services are provided by Allen-Clay Joint Fire District which includes the Village.

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

B. Basis of Accounting

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. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

STAR Ohio is recorded at share values the mutual fund reports.

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.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Income Tax Fund - This fund receives revenue from tax collected from individuals who reside or are employed in the Village.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Capital Projects Fund - This fund receives proceeds of Ohio Public Works Commission (OPWC) monies, transfer from Income Tax Fund, and proceeds of a loan through OPWC. The proceeds are being used for street repair and reconstruction and for other capital projects.

Permanent Improvement Fund - This fund receives proceeds of loans through OPWC. The proceeds are being used for 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. 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

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.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

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:

	2005	2004
Demand deposits	\$61,713	\$92,841
STAR Ohio	150,824	111,288
Total deposits and investments	\$212,537	\$204,129

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

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$63,953	\$70,827	\$6,874
Special Revenue	72,680	73,776	1,096
Capital Project	38,117	38,618	501
Total	\$174,750	\$183,221	\$8,471

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$97,491	\$75,881	\$21,610
Special Revenue	72,020	63,028	8,992
Capital Projects	86,310	47,453	38,857
Total	\$255,821	\$186,362	\$69,459

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$52,000	\$86,972	\$34,972
Special Revenue	101,669	95,723	(5,946)
Capital Projects	768,689	399,167	(369,522)
Total	\$922,358	\$581,862	(\$340,496)

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$104,800	\$78,995	\$25,805
Special Revenue	140,873	129,294	11,579
Capital Projects	722,388	392,768	329,620
Total	\$968,061	\$601,057	\$367,004

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Capital Project – Capital Project Fund by \$41,253 for the year ended December 31, 2004. Also contrary to Ohio law, appropriations exceeded estimated resources in the Capital Project - Permanent Improvement Fund by \$219,117 for the year ended December 31, 2004.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

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.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT

Debt outstanding at December 31, 2005, was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$211,234	0.00%
Ohio Public Works Commission Loan	41,718	0.00%
Genoa Board of Education Note	30,758	4.50%
Total	\$283,710	

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 properly 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 semiannual installments of \$5,497, including interest over 10 years.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OPWC Loan	OPWC Loan	Genoa Board of Education Note
2006	\$11,117	\$4,635	\$5,497
2007	11,118	4,636	5,497
2008	11,118	4,635	5,498
2009	11,117	4,635	5,498
2010	11,118	4,636	5,497
2011-2015	55,588	18,541	8,769
2016-2020	55,588		
2021-2024	44,470		
Total	\$211,234	\$41,718	\$36,256

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' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

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. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 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.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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 government.

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

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

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, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$14.3 million and \$12 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, 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 \$17,514. 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.

Contributions to PEP

2003	\$8,839
2004	\$8,353
2005	\$8,757

VILLAGE OF CLAY CENTER
OTTAWA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

8. RISK MANAGEMENT – (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must 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 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 was incurred or 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, 2005 and 2004, and have issued our report thereon dated January 12, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated January 12, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the Village's management dated January 12, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and Village Council. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

January 12, 2007

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Capital Project Fund had expenditures exceeding appropriations for the year ended December 31, 2004, of \$41,253. Management was advised that failure to have adequate appropriations in place at the time expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

We recommend the Fiscal Officer not certify the availability of funds and deny payment requests exceeding appropriations. The Fiscal Officer may request Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Official's Response:

We did not receive a response from Officials to this Finding.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code § 5705.39 provides in part that the total appropriation from each fund shall not exceed the estimated revenue available for expenditure therefrom as certified by the county budget commission, or in case of appeal, by the board of tax appeals.

The Permanent Improvement Fund had appropriations exceeding estimated revenue for the year ended December 31, 2004, of \$219,117. The failure to limit amounts appropriated to estimated resources could result in deficit fund balances.

We recommend the Village Fiscal Officer monitor appropriations to ensure they are within the limits of the estimated revenue.

Official's Response:

We did not receive a response from Officials to this Finding.

**VILLAGE OF CLAY CENTER
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC 5705.41(B) Expenditure exceeded appropriation.	No	Not corrected. Repeat as Finding Number 2005-001
2003-002	ORC 5705.39 Appropriation exceeds estimated revenue.	No	Not corrected. Repeat as Finding Number 2005-002
2003-003	ORC 5705.41D Clerk's Certification	No	Partially corrected. Repeat in management letter.



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
FEBRUARY 1, 2007