

***VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2002 & 2003

Charles E. Harris and Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

The Honorable Mayor and Members of Village Council
Village of Bailey Lakes
Ashland, Ohio

We have reviewed the Independent Auditor's Report of the Village of Bailey Lakes, Ashland County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Bailey Lakes is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 6, 2004

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2002 & 2003

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VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2002 & 2003

ELECTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM OF OFFICE</u>	<u>SURETY</u>
Kenneth Carpenter	Mayor	1/1/00 to 12/31/03	(A)
John R. Benshoff	Council	1/1/02 to 12/31/05	(A)
Jeff Ling	Council	1/1/02 to 12/31/05	(A)
Mary Webb	Council	1/1/01 to 12/31/04	(A)
Tom Hulme	Council	1/1/01 to 12/31/04	(A)
Dorothy Scott	Council	1/1/02 to 12/31/05	(A)
Delores Frazier	Clerk/ Treasurer	4/1/01 to 3/31/04	(A)

Statutory Legal Council

David A. Samsel
310 Cottage Street
Ashland, Ohio 44805

(A) \$10,000, Ohio Government Risk Management, concurrent with term of office

Rockefeller Building
614 W. Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

**The Honorable Mayor and Members
of Village Council
Village of Bailey Lakes
Bailey Lakes, Ohio**

We have audited the accompanying financial statements of the Village of Bailey Lakes (the Village), as of and for the years ended December 31, 2002 and 2003, as listed in the table of contents. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and fund cash balances of the Village, as of December 31, 2002 and 2003, and the combined receipts, disbursements, and changes in fund cash balances, its combined statement of receipts-budget and actual and combined statement of expenditures and encumbrances compared with expenditure authority for the year then ended in conformity with the basis of accounting referred to above.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
April 7, 2004

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH
BALANCES - ALL FUND TYPES
As of December 31, 2002 and 2003

	<u>2002</u> <u>Balances</u>	<u>2003</u> <u>Balances</u>
Cash and Cash Equivalents	\$ 121,192	\$ 114,167
	<hr/>	<hr/>
	<u>\$ 121,192</u>	<u>\$ 114,167</u>

Cash Balances By Fund Class

Governmental Fund Types:

General Fund	\$ 39,788	\$ 24,572
Special Revenue Funds	48,493	52,026

Proprietary Fund Type:

Enterprise Funds	32,911	37,569
	<hr/>	<hr/>
Total	<u>\$ 121,192</u>	<u>\$ 114,167</u>

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2002**

	<u>Governmental Fund Types</u>		<u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Receipts:			
Taxes	\$ 5,789	\$ -	\$ 5,789
Intergovernmental	50,601	12,621	63,222
Earnings on Investments	1,025	-	1,025
Charges for Services	1,650	-	1,650
Fines, Licenses, and Permits	20	-	20
Miscellaneous	100	-	100
Total Receipts	59,185	12,621	71,806
Disbursements:			
Security of Persons & Property	9,297	-	9,297
Public Health Services	243	-	243
Leisure Time Activities	11,873	-	11,873
Community Environment	2,080	-	2,080
Transportation	8,606	21,085	29,691
General Government	53,566	-	53,566
Total Disbursements	85,665	21,085	106,750
Excess of Receipts Over/(Under) Disbursements	(26,480)	(8,464)	(34,944)
Fund Balance January 1, 2002	66,268	56,957	123,225
Fund Balance December 31, 2002	\$ 39,788	\$ 48,493	\$ 88,281

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2003**

	<u>Governmental Fund Types</u>		<u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
	Receipts:		
Taxes	\$ 5,156	\$ -	\$ 5,156
Intergovernmental	42,567	9,927	52,494
Earnings on Investments	415	-	415
Charges for Services	2,025	-	2,025
Fines, Licenses, and Permits	5	-	5
Miscellaneous	1,457	-	1,457
Total Receipts	51,625	9,927	61,552
Disbursements:			
Security of Persons & Property	9,541	-	9,541
Public Health Services	164	-	164
Leisure Time Activities	12,321	-	12,321
Community Environment	1,954	-	1,954
Transportation	14,607	6,394	21,001
General Government	28,254	-	28,254
Total Disbursements	66,841	6,394	73,235
Excess of Receipts Over/(Under) Disbursements	(15,216)	3,533	(11,683)
Fund Balance January 1, 2003	39,788	48,493	88,281
Fund Balance December 31, 2003	\$ 24,572	\$ 52,026	76,598

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
For the Year Ended December 31, 2002

		<u>Proprietary</u> <u>Fund Type</u> <u>Enterprise</u>
Receipts:		
Charges for Services	\$	123,434
<hr/>		
Total Receipts		123,434
Disbursements:		
Personal Services		3,488
Travel Transportation		21
Contractual Services		100,341
Supplies and Materials		17,457
<hr/>		
Total Disbursements		121,307
Excess Receipts Over/(Under) Disbursements		2,127
Non-Operating Expenses:		
Debt Service:		
Principal		(18,681)
Interest		(14,331)
<hr/>		
Total Non-Operating Expenses		(33,012)
Net Receipts Over/(Under) Disbursements		(30,885)
Fund Balance January 1, 2002		63,796
<hr/>		
Fund Balance December 31, 2002	\$	32,911
<hr/> <hr/>		

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
For the Year Ended December 31, 2003**

		<u>Proprietary Fund Type Enterprise</u>
Receipts:		
Charges for Services	\$	107,809
Miscellaneous		<u>1,000</u>
Total Receipts		108,809
Disbursements:		
Personal Services		3,464
Contractual Services		60,072
Material and Supplies		<u>9,639</u>
Total Disbursements		<u>73,175</u>
Excess Receipts Over/(Under) Disbursements		35,634
Non-Operating Expenses		
Debt Service:		
Principal		(20,730)
Interest		<u>(10,246)</u>
Total Non-Operating Expenses		<u>(30,976)</u>
Net Receipts Over/(Under) Disbursements		4,658
Fund Balance January 1, 2003		<u>32,911</u>
Fund Balance December 31, 2003	\$	<u><u>37,569</u></u>

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

<u>Fund Types/Funds:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Governmental Fund Types:</u>			
General Fund	\$ 73,191	\$ 59,185	\$ (14,006)
Special Revenue	12,290	12,621	331
<u>Proprietary Fund Type:</u>			
Enterprise Fund	<u>115,277</u>	<u>123,434</u>	<u>8,157</u>
Total (Memorandum Only)	\$ <u>200,758</u>	\$ <u>195,240</u>	\$ <u>(5,518)</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2003

<u>Fund Types/Funds:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Governmental Fund Types:</u>			
General Fund	\$ 75,421	\$ 51,625	\$ (23,796)
Special Revenue	12,401	9,927	(2,474)
<u>Proprietary Fund Type:</u>			
Enterprise Fund	<u>115,000</u>	<u>108,809</u>	<u>(6,191)</u>
Total (Memorandum Only)	\$ <u>202,822</u>	\$ <u>170,361</u>	\$ <u>(32,461)</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2002

<u>Fund Types/Funds</u>	<u>Carryover</u> <u>Appropriations</u>	<u>Year Ending</u> <u>2002</u> <u>Appropriations</u>	<u>Total</u>	<u>Actual</u> <u>2002</u> <u>Disbursements</u>	<u>Encumbrances</u> <u>as of</u> <u>12/31/02</u>	<u>Total</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Governmental Funds:							
General Fund	\$ -	\$ 139,459	\$ 139,459	\$ 85,665	\$ -	\$ 85,665	\$ 53,794
Special Revenue Funds	-	69,246	69,246	21,085	-	21,085	48,161
Proprietary Fund:							
Enterprise Fund	-	179,073	179,073	154,319	-	154,319	24,754
Total (Memorandum Only)	\$ -	\$ 387,778	\$ 387,778	\$ 261,069	\$ -	\$ 261,069	\$ 126,709

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2003

<u>Fund Types/Funds</u>	<u>Carryover</u> <u>Appropriations</u>	<u>Year Ending</u> <u>2003</u> <u>Appropriations</u>	<u>Total</u>	<u>Actual</u> <u>2003</u> <u>Disbursements</u>	<u>Encumbrances</u> <u>as of</u> <u>12/31/03</u>	<u>Total</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Governmental Funds:							
General Fund	\$ -	\$ 114,209	\$ 114,209	\$ 66,841	\$ -	\$ 66,841	\$ 47,368
Special Revenue Funds	-	60,894	60,894	6,394	-	6,394	54,500
Proprietary Fund:							
Enterprise Fund	-	147,911	147,911	104,151	-	104,151	43,760
Total (Memorandum Only)	\$ -	\$ 323,014	\$ 323,014	\$ 177,386	\$ -	\$ 177,386	\$ 145,628

See accompanying Notes to the Financial Statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Bailey Lakes, Ashland County, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected, six-member Council. The Village provides general governmental services, including water and sewer services.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. REPORTING ENTITY

In evaluating how to define the Village for financial reporting purposes, management has considered all agencies, departments and organizations making up the Village of Bailey Lakes (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." There were no significant changes in the reporting entity related to the implementation of this statement for the current audit period.

Component units are legally separate organizations for which the Village, as the primary government, is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and 1) the Village is able to significantly influence the programs or services performed or provided by the organization; or 2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Village is obligated for the debt of the organization. Component units may also include organizations for which the Village approves the budget, the issuance of debt, or the levying of taxes.

Based on the above definitions, the Village has determined that there were no component units required to be included the financial statements.

C. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursement basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received. See Note 2 for further description.

E. **FUND ACCOUNTING**

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds: To account for the proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes.

Proprietary Fund Type:

Enterprise Fund: This fund accounts for operations that are similar to private business enterprise where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

F. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. **Estimated Resources**

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Treasurer by September 1.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

F. **BUDGETARY PROCESS** - (continued)

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk/Treasurer sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the County Budget Commission for approval. This amended certificate may be further amended during the year if projected increases or decreases in revenue are identified by the Clerk/Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificates issued during 2002 and 2003.

Budget receipts, as shown in the accompanying financial statements, do not include the unencumbered fund balances as of January 1, 2002 and 2003. However, those fund balances are available for appropriation.

3. **Appropriations**

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The legal level of budgetary control is at the object level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

4. **Encumbrances**

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Village did not use the encumbrance method of accounting, as required.

G. **Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

H. Unpaid Vacation and Sick Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities on the accompanying financial statements.

I. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Village maintains a cash and investment pool used by all funds. The balance of this pool is displayed on the "Combined Statement of Cash, Investments, and Fund Cash Balances - All Fund Types, As of December 31, 2002 and 2003."

Legal Requirements

State statutes classify monies held by the Village into three categories.

"Active deposits" are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Village Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

"Inactive deposits" are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

"Interim deposits" are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligations guaranteed as to principal or interest by the United States;

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

2. **EQUITY IN POOLED CASH AND CASH EQUIVALENTS** - (continued)

Legal Requirements - (continued)

2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities, subject to the repurchase agreement, must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No -load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in the is division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Village, and be purchased within the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk/Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

2. **EQUITY IN POOLED CASH AND CASH EQUIVALENTS** - (continued)

Legal Requirements - (continued)

Deposits: At year end, the carrying amount of the Village's deposits were \$121,192 in 2002 and \$114,167 in 2003 and the bank balance was \$124,640 in 2002 and \$117,558 in 2003. Of the bank balance, \$100,000 of deposits for both years were covered by federal depository insurance and \$24,640 in 2002 and \$17,558 in 2003 was uninsured, but collateralized by securities pooled by the depository not in the Village's name. As with all deposits, there is a risk of loss of resources, but management believes this collateral gives the Village its safest deposit of money.

Investments:

The Village's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or by its trust department but not in the Village's name. At December 31, 2002 and 2003, the Village held no securities that would be classified as investments under GASB Statement No. 3.

3. **PROPERTY TAX**

Real property taxes are levied on assessed values, which equal 35 percent of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2000.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the years ended December 31, 2001 and 2002 (received in 2002 and 2003) were \$69.00 for both years per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$42.77 and \$41.17, respectively, per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$44.58 and \$42.65 for 2002 and 2003, respectively, per \$1,000 of assessed valuation for commercial property. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

3. **PROPERTY TAX** – (continued)

The following represents the assessed property values for the revenues received during the years 2002 and 2003:

Real Property:	<u>2002</u>		<u>2003</u>
Residential/Agricultural	\$3,488,820		\$3,490,890
Commercial/Industrial	445,890		445,890
Tangible Personal Property:			
General	61,775		48,020
Public Utilities	<u>75,770</u>		<u>113,800</u>
Total Valuation	<u><u>\$4,072,255</u></u>		<u><u>\$4,098,600</u></u>

The Ashland County Treasurer collects property tax on behalf of all taxing entities within the County. The Ashland County Auditor periodically remits to the taxing entities their portions of the taxes collected.

4. **DEBT**

Debt outstanding at December 31, 2002 was as follows:

	Balance Outstanding 12-31-01	Additions	Deductions	Balance Outstanding 12-31-02
<u>O.W.D.A.</u>				
O.W.D.A. Loan #1315	\$55,576	\$- 0 -	\$(6,680)	\$48,896
O.W.D.A. Loan #1316	25,372	- 0 -	(3,208)	22,164
O.W.D.A. Loan #1317	32,894	- 0 -	(3,856)	29,039
O.W.D.A. Loan #1318	18,686	- 0 -	(1,977)	16,709
O.W.D.A. Loan #2613	<u>26,640</u>	<u>- 0 -</u>	<u>(2,960)</u>	<u>23,680</u>
Total O.W.D.A. Loans	<u><u>\$159,169</u></u>	<u><u>\$- 0 -</u></u>	<u><u>\$(18,681)</u></u>	<u><u>\$140,488</u></u>

There was an incorrect 12/31/01 balance in the prior year audit report of \$129,703. The amount reflected above is the correct balance.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

4. **DEBT** - (continued)

Debt outstanding at December 31, 2003 was as follows:

<u>O.W.D.A.</u>	Balance Outstanding 12-31-02	Additions	Deductions	Balance Outstanding 12-31-03
O.W.D.A. Loan #1315	\$48,896	\$- 0 -	\$(7,799)	\$41,097
O.W.D.A. Loan #1316	22,164	- 0 -	(3,561)	18,603
O.W.D.A. Loan #1317	29,039	- 0 -	(4,237)	24,801
O.W.D.A. Loan #1318	16,709	- 0 -	(2,174)	14,536
O.W.D.A. Loan #2613	23,680	- 0 -	(2,960)	20,720
Total O.W.D.A. Loans	\$140,488	\$- 0 -	\$(20,730)	\$119,757

The O.W.D.A. loans were for improvements to the Village's water and sewer systems and are repaid from the enterprise fund.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

<u>Year Ended</u>	<u>O.W.D.A. Loans</u>
2004	\$ 13,636
2005	32,254
2006	31,118
2007	31,845
2008	22,963
2009	4,821
2010	2,960
2011	<u>2,960</u>
Total	\$ <u>142,557</u>

5. **RISK MANAGEMENT**

The Village is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal years 2002 and 2003, the Village contracted with one insurance company for coverage of buildings and contents.

All employees of the Village are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2002 and 2003

5. RISK MANAGEMENT – (continued)

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Also, the Village did not reduce its insurance coverages significantly during the year.

6. RETIREMENT SYSTEMS

Employees of the Village elected to contribute to Social Security and Medicare. All required payments were made at December 31, 2003.

7. CONTINGENT LIABILITIES

The Village may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Solicitor, the resolution of this matter will not have a material adverse effect on the financial condition of the Village.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of Village Council
Village of Bailey Lakes
Bailey Lakes, Ohio

We have audited the accompanying financial statements of the Village of Bailey Lakes (the Village), as of and for the years ended December 31, 2002 and 2003, and have issued our report thereon dated April 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-BL-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated April 7, 2004.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
April 7, 2004

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
SCHEDULE OF FINDINGS**

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

Finding Number : 2003-BL-001

Ohio Admin. Code Section 117-5-13 requires the Village to use the encumbrance method of accounting. All purchase orders shall be numbered consecutively and certified by the Village Clerk-Treasurer that funds are available or in the process of collection free from a previous encumbrance. Each encumbrance charged against an appropriation shall be posted and subtracted from the appropriated balance producing a declining unencumbered balance.

The Village did not use the encumbrance method of accounting.

STATUS OF PRIOR YEAR'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the years ended December 31, 2000 and 2001 included no material citations and recommendations.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF BAILEY LAKES

ASHLAND 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
JULY 20, 2004**