

VILLAGE OF BAILEY LAKES

ASHLAND COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2007 and 2006

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



Mary Taylor, CPA

Auditor of State

Village Council
Village of Bailey Lakes
1244 Second Street
Ashland, Ohio 44805

We have reviewed the *Report of Independent Accountants* of the Village of Bailey Lakes, Ashland County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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.

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

Mary Taylor, CPA
Auditor of State

August 6, 2008

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VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
Audit Report
For the Years ended December 31, 2007 and 2006

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1-2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – Proprietary Fund Types - For the Year Ended December 31, 2007	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - Proprietary Fund Types - For the Year Ended December 31, 2006	6
Notes to the Financial Statements	7-13
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	14-15
Schedule of Findings	16-18
Schedule of Prior Audit Findings	19

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Bailey Lakes
Ashland County
1244 Second Street
Ashland, Ohio 44805

To the Members of Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2007 and 2006. While the Village does not follow GAAP, generally accepted auditing standards require 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 the Village does not use GAAP to measure its 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, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows 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 of the Village of Bailey Lakes, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 June 23, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

Charles E. Harris & Associates, Inc.
June 23, 2008

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2007**

	<u>Governmental Fund Types</u>		<u>(Memorandum Only) Total</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Taxes	\$ 5,545	-	\$ 5,545
Intergovernmental	50,295	\$ 19,588	69,883
Earnings on Investments	354	-	354
Charges for Services	1,200	-	1,200
Fines, Licences, and Permits	3,241	-	3,241
Miscellaneous	473	-	473
Total Cash Receipts	61,108	19,588	80,696
Cash Disbursements:			
Security of Persons & Property	10,160	-	10,160
Public Health Services	154	-	154
Leisure Time Activities	8,210	-	8,210
Community Environment	3,144	-	3,144
Transportation	24,655	18,888	43,543
General Government	25,799	-	25,799
Total Cash Disbursements	72,122	18,888	91,010
Cash Receipts Over/(Under) Cash Disbursements	(11,014)	700	(10,314)
Other Financing Receipts/(Disbursements)			
Advances In	14,116	-	14,116
Advances Out	(14,116)	-	(14,116)
Total Other Financing Receipts/(Disbursements)	-	-	-
Excess of Receipts and Other Financing Receipts Other (Under) Cash Disbursements and Other Financing Disbursements	(11,014)	700	(10,314)
Fund Balance, January 1, 2007	25,113	16,387	41,500
Fund Balance, December 31, 2007	\$ 14,099	\$ 17,087	\$ 31,186

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPES
For the Year Ended December 31, 2007**

	Proprietary Fund Type Enterprise
Cash Receipts:	
Charges for Services	\$ 122,498
Fines, Licenses and Permits	1,000
	123,498
Total Cash Receipts	123,498
Cash Disbursements:	
Contractual Services	98,041
Materials and Supplies	9,804
Capital Outlay	62,730
	170,575
Total Cash Disbursements	170,575
Cash Receipts Over/(Under) Cash Disbursements	(47,077)
Non-Operating Receipts (Disbursements):	
Debt Proceeds	14,100
Intergovernmental	62,500
Debt Service:	
Principal	(30,592)
Interest	(2,587)
	43,421
Total Non-Operating Receipts/(Disbursements)	43,421
Income (Loss) Before Advances	(3,656)
Advances-In	14,116
Advances-Out	(14,116)
	(3,656)
Net Income/(Loss)	(3,656)
Fund Balance, January 1, 2007	21,856
Fund Balance, December 31, 2007	\$ 18,200

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2006**

	<u>Governmental Fund Types</u>		<u>(Memorandum Only) Total</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Taxes	\$ 5,375	-	\$ 5,375
Intergovernmental	75,299	\$ 18,884	94,183
Earnings on Investments	297	-	297
Charges for Services	2,038	-	2,038
Fines, Licences, and Permits	2,352	-	2,352
Miscellaneous	100	-	100
Total Cash Receipts	85,461	18,884	104,345
Cash Disbursements:			
Security of Persons & Property	10,535	-	10,535
Public Health Services	156	-	156
Leisure Time Activities	12,924	-	12,924
Community Environment	3,954	-	3,954
Transportation	19,994	14,894	34,888
General Government	30,843	-	30,843
Total Cash Disbursements	78,406	14,894	93,300
Cash Receipts Over/(Under) Cash Disbursements	7,055	3,990	11,045
Fund Balance, January 1, 2006	18,058	12,397	30,455
Fund Balance, December 31, 2006	\$ 25,113	\$ 16,387	\$ 41,500

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPES
For the Year Ended December 31, 2006**

	Proprietary Fund Type Enterprise
Cash Receipts:	
Charges for Services	\$ 125,603
Total Cash Receipts	125,603
Cash Disbursements:	
Contractual Services	81,072
Materials and Supplies	13,637
Capital Outlay	657
Total Cash Disbursements	95,366
Cash Receipts Over/(Under) Cash Disbursements	30,237
Non-Operating Disbursements:	
Debt Service:	
Principal	(26,990)
Interest	(4,012)
Total Non-Operating Disbursements	(31,002)
Net Cash Receipts Over/(Under) Cash Disbursements	(765)
Fund Balance, January 1, 2006	22,621
Fund Balance, December 31, 2006	\$ 21,856

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, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Bailey Lakes, (the Village) is a body corporate and politic established to exercise 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 government services, including water and sewer services.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements 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.)

These statements include adequate disclosure of material matters, as prescribed by the Auditor of State.

C. CASH AND INVESTMENTS

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. 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:

1. 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 to be accounted for in another fund.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO

Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. FUND ACCOUNTING - (continued)

2. Special Revenue Funds

To account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Village had the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline and motor vehicle tax money for construction, maintenance and repairing of Village streets.

3. Enterprise Funds

These funds are used to account for operations that are similar to private business enterprises where management intends that significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund- This fund receives charges for services from residents to cover the cost of providing the utility.

Sewer Fund- This fund receives charges for services from residents to cover the cost of providing the utility.

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. 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 balances as of January 1. The County Budget Commission must also approve estimated resources.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO

Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS – (continued)

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 re-appropriated.

The Village did not certify encumbrances for all transactions for 2007 or 2006.

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

F. 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.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2007</u>	<u>2006</u>
Demand Deposits	<u>\$49,386</u>	<u>\$63,356</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by securities specifically pledged by the financial institution to the Village or (3) collateralized by the financial institution's public entity deposit pool.

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

**Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006**

3. BUDGETARY ACTIVITY

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

2007 Budgeted vs. Actual Receipts

Fund Types	Budgeted Receipts	Actual Receipts	Variance
General	\$ 91,483	\$ 61,108	\$ (30,375)
Special Revenue	15,300	19,588	4,288
Enterprise	123,000	200,098	77,098
Total	\$ 229,783	\$ 280,794	\$ 51,011

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 116,595	\$ 72,122	\$ 44,473
Special Revenue	30,440	18,880	11,560
Enterprise	144,137	203,754	(59,617)
Total	\$ 291,172	\$ 294,756	\$ (3,584)

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 71,016	\$ 85,461	\$ 14,445
Special Revenue	10,400	18,884	8,484
Enterprise	123,000	125,603	2,603
Total	\$ 204,416	\$ 229,948	\$ 25,532

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 89,074	\$ 78,406	\$ 10,668
Special Revenue	22,797	14,894	7,903
Enterprise	145,621	126,368	19,253
Total	\$ 257,492	\$ 219,668	\$ 37,824

Advances in and out are not budgeted, therefore excluded from above amounts.

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

**Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006**

4. PROPERTY TAX

Real property becomes a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State and are reflected in the accompanying financial statements as Intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. RETIREMENT SYSTEM

Employees of the Village elected to contribute to Social Security and Medicare. The Village has paid all contributions required through December 31, 2007.

6. DEBT

The Village has OWDA loans which used for improvements to the Village's water and sewer system and are repaid from the enterprise fund from user charges.

In 2007, the Village obtained a loan from Huntington Bank in the amount of \$14,100 to partly finance the Lift Station Replacement of its Sewer Plant. The rest was funded by the Ashland County Block Grant Project.

The Village outstanding loans as of December 31, 2007 are:

	<u>Principal</u>	<u>Interest rate</u>
OWDA Loans		
#1317	\$ 3,233	9.88%
#1318	3,478	9.88%
#2613	8,880	0%
Huntington Bank Loan	<u>13,041</u>	7.25%
Total Loans	<u><u>\$ 28,632</u></u>	

Principal and interest requirements to retire long-term debt obligations outstanding at December 31, 2007 are as follows:

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

**Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006**

6. DEBT – (continued)

	<u>OWDA Loans</u>	<u>Huntington Bank</u>
2008	\$ 8,425	\$ 5,252
2009	4,871	5,252
2010	<u>2,960</u>	<u>3,947</u>
Total	<u>\$ 16,256</u>	<u>\$ 14,451</u>

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the “Plan”), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments (“Members”).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages, modified for each member’s needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member’s deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years. Also coverages were not reduced from the prior year.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members’ Equity	<u>\$6,290,528</u>	<u>\$5,470,791</u>

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO

Notes To The Financial Statements
For The Years Ended December 31, 2007 and 2006

7. **RISK MANAGEMENT** – (continued)

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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

8. **CONTINGENT LIABILITIES/SUBSEQUENT EVENTS**

Management believes there are no material pending claims or lawsuits.

9. **LEGAL COMPLIANCE**

The Village did not certify expenditures properly contrary Ohio Rev. Code Section 5705.41(D). Also the Village's Enterprise Fund – Sanitary Sewer was found to have expenditures exceeding appropriations contrary to Ohio Rev. Code Section 5705.41(B). The Village did not amend its estimated resources even when its projected receipts was less than actual receipts, in violation of Ohio Rev. Code Section 5705.36(A)(2).

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Village of Bailey Lakes
Ashland County
1244 Second Street
Ashland, Ohio 448550

To the Members of Village Council:

We have audited the financial statements of the Village of Bailey Lakes, Ashland County, Ohio (Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 23, 2008, wherein we noted the Village followed accounting practices prescribed or permitted by the Auditor of State of Ohio. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2007-Bailey Lakes-02 and 2007-Bailey Lakes-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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

Compliance and Other Matters

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, grant agreements and other matters, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-Bailey Lakes-01, 02, 03 and 04.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We noted certain matters that we have reported to management of the Village in a separate letter dated June 23, 2008.

This report is intended 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.
June 23, 2008

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
SCHEDULE OF FINDINGS
December 31, 2007 and 2006**

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

FINDING NUMBER 2007-Bailey Lakes-01: Noncompliance Citation

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

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

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

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

2. Blanket Certificates - Fiscal officers may prepare "blanket" certificates for a certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificates – The Village may also make expenditures and contracts for any amount for a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most profession services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not make the proper certification of funds. The Village did not use purchase orders during the audit period. We recommend that the Village institute the use of purchase orders for any expenditure to be made and certify expenditures prior to incurring the liability. In instances where prior certification is not practical, we recommend the issuance of a "Then and Now" certificate.

Management has continued the practice of not using purchase orders for all transactions.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2007 and 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (continued)

FINDING NUMBER 2007-Bailey Lakes-02: Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-02(A) provides that all local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance and finance-related legal and contractual requirements and prepare financial statements.

The Village Officers' Handbook provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

During 2006 and 2007, the Village posted its debt service payments for its loans from OWDA and Huntington Bank under the Capital Outlay and Contractual Services accounts. These disbursements were adjusted to show payments to Debt Service.

In 2006 the Village received a grant from OPWC which it recorded as Miscellaneous Revenue. This was adjusted to record the grant as Intergovernmental.

In 2007, the Village received a grant from the Ashland County Block Grant Project for the replacement of its pumping/lift station. Since the grant was paid directly to the vendor, the Village did not record the transactions in its books. This was adjusted to report an inflow in its Intergovernmental account and outflow in its Capital Outlay account. It obtained a \$14,100 loan from Huntington Bank to finance a portion of this pumping/lift station. It recorded the loan as Other Financing Sources. This was adjusted to show the cash inflow as Debt Proceeds.

The Village did not amend its appropriations for its pumping station. Thus this also resulted in a violation of Ohio Revised Code Section 5705.41(B). (See Finding Number 2007-Bailey Lakes-03.)

We recommend the Village utilize available authoritative resources to appropriately classify its transactions.

The Clerk-Treasurer agrees and will make the proper posting of receipts and disbursements in the future.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2007 and 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (continued)

FINDING NUMBER 2007-Bailey Lakes-03: Noncompliance and Material Weakness

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided by such chapter. In 2007, the Enterprise Fund – Sanitary Sewer was found to have Disbursements (\$121,474) exceeding Appropriations (\$49,940) by \$71,534.

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

The Clerk-Treasurer has indicated that, if necessary, she will amend appropriations in the future to meet requirements.

FINDING NUMBER 2007-Bailey Lakes-04: Noncompliance

Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

In 2007, the Village had estimated receipts greater than actual receipts in the General Fund to an extent by which the shortage of actual compared to estimated receipts could reduce the total estimated resources to an amount lower than the appropriations.

General Fund (\$30,375)

The Clerk-Treasurer agrees and has indicated that she will amend estimated resources in the future, if necessary.

VILLAGE OF BAILEY LAKES
 ASHLAND COUNTY, OHIO
 For the Years Ended December 31, 2007 and 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-Bailey Lakes-01	Ohio Rev. Code Section 5705.41(D), requires the Village's Clerk/Treasurer to certify the availability of funds prior to any obligation.	No	See finding number 2007-Bailey Lakes-01



Mary Taylor, CPA
Auditor of State

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
AUGUST 19, 2008**