



Dave Yost • Auditor of State

VILLAGE OF RAYLAND
JEFFERSON 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, 2011	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2011	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2010	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	25

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Dave Yost • Auditor of State

Village of Rayland
Jefferson County
P.O. Box 188
Rayland, Ohio 43943-0188

To the Village Council:

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

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Dave Yost
Auditor of State

July 26, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Rayland
Jefferson County
P.O. Box 188
Rayland, Ohio 43943-0188

To the Village Council:

We have audited the accompanying financial statements of the Village of Rayland, Jefferson County, (the Village) as of and for the years ended December 31, 2011 and 2010. 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 our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 of the Village of Rayland, Jefferson County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Village of Rayland adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

July 26, 2012

VILLAGE OF RAYLAND
JEFFERSON COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts					
Property and Other Local Taxes	\$19,139	\$1,885			\$21,024
Intergovernmental	19,178	19,200			38,378
Special Assessments			\$245		245
Charges for Services	1,767				1,767
Fines, Licenses and Permits	8,690				8,690
Earnings on Investments	70				70
Miscellaneous	12,951	11			12,962
<i>Total Cash Receipts</i>	<u>61,795</u>	<u>21,096</u>	<u>245</u>		<u>83,136</u>
Cash Disbursements					
Current:					
Security of Persons and Property	24,266				24,266
Public Health Services	637				637
Leisure Time Activities	3,740				3,740
Transportation		13,991			13,991
General Government	43,951		13		43,964
Capital Outlay	3,000				3,000
Debt Service:					
Principal Retirement	202	2,035			2,237
Interest and Fiscal Charges	26	228			254
<i>Total Cash Disbursements</i>	<u>75,822</u>	<u>16,254</u>	<u>13</u>		<u>92,089</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(14,027)</u>	<u>4,842</u>	<u>232</u>		<u>(8,953)</u>
<i>Net Change in Fund Cash Balances</i>	(14,027)	4,842	232		(8,953)
<i>Fund Cash Balances, January 1</i>	<u>10,790</u>	<u>13,241</u>	<u>11,805</u>	<u>\$10</u>	<u>35,846</u>
Fund Cash Balances, December 31					
Nonspendable		120			120
Restricted		17,963	12,037	10	30,010
Unassigned (Deficit)	(3,237)	0			(3,237)
Fund Cash Balances, December 31	<u>(\$3,237)</u>	<u>\$18,083</u>	<u>\$12,037</u>	<u>\$10</u>	<u>\$26,893</u>

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

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$101,673
Miscellaneous	2,101
<i>Total Operating Cash Receipts</i>	103,774
Operating Cash Disbursements	
Personal Services	10,520
Employee Fringe Benefits	1,577
Contractual Services	91,443
Supplies and Materials	10,085
Claims	
Other	776
<i>Total Operating Cash Disbursements</i>	114,401
<i>Operating Income (Loss)</i>	(10,627)
Non-Operating Receipts (Disbursements)	
Principal Retirement	(9,902)
Interest and Other Fiscal Charges	(2,131)
<i>Total Non-Operating Receipts (Disbursements)</i>	(12,033)
<i>Income (Loss)</i>	(22,660)
<i>Net Change in Fund Cash Balances</i>	(22,660)
<i>Fund Cash Balances, January 1</i>	13,795
<i>Fund Cash Balances, December 31</i>	(8,865)

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

VILLAGE OF RAYLAND
JEFFERSON COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$18,869	\$1,966			\$20,835
Intergovernmental	19,314	19,983			39,297
Special Assessments			\$1,847		1,847
Charges for Services	1,395				1,395
Fines, Licenses and Permits	8,665				8,665
Earnings on Investments	184				184
Miscellaneous	7,528				7,528
Total Cash Receipts	55,955	21,949	1,847		79,751
Cash Disbursements:					
Current:					
Security of Persons and Property	13,582	679			14,261
Public Health Services	654				654
Leisure Time Activities	3,425				3,425
Basic Utility Service	3,705				3,705
General Government	32,284	27,313	9		59,606
Debt Service:					
Redemption of Principal		510			510
Interest and Fiscal Charges		106			106
Capital Outlay		11,500			11,500
Total Cash Disbursements	53,650	40,108	9		93,767
Total Receipts Over/(Under) Disbursements	2,305	(18,159)	1,838		(14,016)
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes		10,000			10,000
Sale of Fixed Assets		800			800
Total Other Financing Receipts / (Disbursements)		10,800			10,800
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	2,305	(7,359)	1,838		(3,216)
Fund Cash Balances, January 1	8,485	20,600	9,967	\$10	39,062
Fund Cash Balances, December 31	\$10,790	\$13,241	\$11,805	\$10	\$35,846

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

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$103,882
Miscellaneous	1,721
	105,603
Operating Cash Disbursements:	
Personal Services	10,415
Employee Fringe Benefits	1,415
Contractual Services	47,082
Supplies and Materials	44,794
Other	492
	104,198
Operating Income/(Loss)	1,405
Non-Operating Cash Receipts:	
Intergovernmental	26,161
Sale of Notes	221,725
Other Non-Operating Cash Receipts	1,200
	249,086
Non-Operating Cash Disbursements:	
Capital Outlay	216,576
Redemption of Principal	35,845
Interest and Other Fiscal Charges	2,141
Other Non-Operating Cash Disbursements	1,300
	255,862
Net Receipts Over/(Under) Disbursements	(5,371)
Fund Cash Balances, January 1	19,166
Fund Cash Balances, December 31	\$13,795

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

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Rayland, Jefferson County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, sanitation, park operations, and police services. The Village contracts with the Rayland Volunteer Fire Department to receive fire protection services and emergency medical services.

The Village participates in the Ohio Municipal League public entity risk pool. Note 7 to the financial statements provide additional information for this entity. This organizations is:

Public Entity Risk Pool:

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, a risk-sharing pool available to Ohio local governments. The Pool provides property, liability and casualty coverage for its members.

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Special Revenue Funds

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

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

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Funds

Sewer Bond Assessment Fund - This fund receives special assessments from the county real estate tax settlements to pay off debt.

4. 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 capital project fund was not active during 2010 and 2011; a small balance remains.

5. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Sanitation Fund - This fund receives charges for services from residents to cover garbage collection costs.

E. Budgetary Process

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

VILLAGE OF RAYLAND
JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2011	2010
Demand deposits	\$18,028	\$13,991
Certificates of deposit	0	35,650
Total deposits	18,028	49,641

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$61,795	\$61,795
Special Revenue	0	21,096	21,096
Debt Service	0	245	245
Enterprise	0	103,774	103,774
Total	<u>\$0</u>	<u>\$186,910</u>	<u>\$186,910</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$72,010	\$75,822	(\$3,812)
Special Revenue	49,095	16,254	32,841
Debt Service	0	13	(13)
Enterprise	157,200	126,434	30,766
Total	<u>\$278,305</u>	<u>\$218,523</u>	<u>\$59,782</u>

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$55,955	\$55,955
Special Revenue	0	32,749	32,749
Debt Service	0	1,847	1,847
Enterprise	0	354,689	354,689
Total	<u>\$0</u>	<u>\$445,240</u>	<u>\$445,240</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$69,760	\$53,650	\$16,110
Special Revenue	44,960	40,108	4,852
Debt Service	1,970	9	1,961
Enterprise	153,520	360,060	(206,540)
Total	<u>\$270,210</u>	<u>\$453,827</u>	<u>(\$183,617)</u>

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund by \$3,812 for the year ended December 31, 2011 and in the Enterprise Funds by \$206,540 for the year ended December 31, 2010. Also contrary to Ohio law, the appropriations exceeded the total estimated resources in all funds during the years ended December 31, 2011 and 2010, as no certificate of the total amount from all sources available was filed by the Village with the county auditor. Contrary to Ohio law, two funds had negative cash balances at 12/31/10 and two funds had negative cash balances at 12/31/2011.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

5. DEBT

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #4635	\$51,725	3.82%
Ohio Water Development Authority Loan #5286	\$183,236	0%
US Bank Loan #512756233	5,800	4.74%
Total	<u>\$240,761</u>	

The Ohio Water Development Authority (OWDA) loan #4635 relates to a Tiltonsville waste water treatment plant improvements project approved in 2007. The Village will repay the loan in semiannual installments of \$2,281, including interest, over 20 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Water Development Authority (OWDA) loan #5286 relates to a water main replacement project approved in 2009. The Village will repay the loan in semiannual installments over 30 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The US Bank Quick Loan is for a truck purchased by the Village in 2010. The Village will repay the loan in monthly payments with an expected pay off date in 2013. The Village's taxing authority collateralizes the loan.

**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. DEBT - (Continued)

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

Year ending December 31:	OWDA Loan #4635	OWDA Loan #5826	US Bank Loan
2012	\$4,562	\$6,544	\$3,634
2013	4,562	6,544	2,409
2014	4,562	6,544	
2015	4,562	6,544	
2016	4,562	6,544	
2017-2021	22,810	32,721	
2022-2026	22,810	32,721	
2027-2031		32,721	
2032-2036		32,721	
2037-2039		19,632	
Total	<u>\$68,430</u>	<u>\$183,236</u>	<u>\$6,043</u>

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at December 31, 2010, retention levels are \$150,000 for property and casualty coverage.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

VILLAGE OF RAYLAND
JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

7. RISK MANAGEMENT - (Continued)

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained surplus at December 31, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$1,950,167	\$ 2,109,514
Liabilities	<u>(1,656,732)</u>	<u>(1,920,839)</u>
Accumulated deficit	<u>\$293,435</u>	<u>\$188,675</u>



Dave Yost • 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 Rayland
Jefferson County
P.O. Box 188
Rayland, Ohio 43943 - 0188

To the Village Council:

We have audited the financial statements of the Village of Rayland, Jefferson County, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 26, 2012, 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. In addition, we noted the Village implemented Government Accounting Standards Board Statement.54, "*Fund Balance and Governmental Type Definitions*" in 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-05 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 through 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 26, 2012.

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 response and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

July 26, 2012

VILLAGE OF RAYLAND
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-01

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) provides that expenditures shall not exceed appropriations. In 2010, expenditures exceeded appropriations in the Street Construction Maintenance and Repair Fund by \$5,778 (18%) in 2011, expenditures exceeded appropriations in the General Fund by \$3,812 (5%).

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

Official's Response:

On January 2, 2012, Council passed Resolution 01-2012, a resolution that retroactively increased 2011 appropriations to adequately cover expenditures made in 2011, including those in the General Fund. After the final (and only) council meeting of December, the Village was able to negotiate a significant discount on outstanding payables, which necessitated immediate payment. It is the opinion of the Village that the cost savings achieved and subsequent resolution to retroactively increase appropriations was a prudent financial decision that benefitted the taxpayers of the Village.

FINDING NUMBER 2011-02

Noncompliance Citation

Ohio Revised Code Section 5705.36(A)(1) provides that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. Also, **Ohio Revised Code Section 5705.39** provides in part that total appropriations from each fund shall not exceed estimated resources.

The Village Clerk/Treasurer did not certify to the County Auditor the total amount from all sources available for expenditures from each fund in the tax budget for 2010 or 2011; therefore, appropriations exceeded estimated resources by 100% in all funds for 2010 and 2011.

Failure to certify the total amount from all sources available for expenditures could result in overspending and negative cash balances. The Clerk/Treasurer should certify amounts available for expenditures for each fund in the tax budget.

Officials' Response

Due to poor record keeping and lack of oversight, the Village can neither confirm nor deny that the Clerk/Treasurer in office at that time certified to the County Auditor the total amount from all sources available for expenditures from each fund in the tax budget for 2010 and 2011. This issue has been corrected, as the proper certification for 2012 was made.

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Revised Code Section 5705.10(H) provides in part that money paid into a fund must be used only for the purposes for which such fund has been established.

The Village had the following negative fund cash balances, indicating money from another fund was used to cover the expenses of these funds.

Fund	Fund Cash Balance
2010	
Street Construction Maintenance & Repair	(\$662)
Sewer	(\$8,621)
2011	
General	(\$3,917)
Sewer	(\$31,854)

Village Council should review the finances and formulate a plan for the elimination of the deficit balances. In addition, the Village should monitor all fund balances and limit spending appropriately. By restricting expenditures to the amounts available, the Village will prevent using restricted funds to cover the expenditures of other funds.

Officials' Response

In early 2012, the deficit in the Sewer Fund was addressed by both raising revenues (in the form of higher sewer rates for customers), and negotiating lower contract expenditures with the primary supplier of sewage services. It is the projection of Village officials that the Sewer Fund deficit will be eliminated at some time in 2014. The Fiscal Officer is now providing Council with monthly financial reports and monitoring the status of all funds on a regular basis.

FINDING NUMBER 2011-04

Noncompliance Citation

Ohio Revised Code Section 5705.41 (D) provides in part that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D) (1) and 5705.41(D) (3), respectively of the Ohio Revised Code.

**FINDING NUMBER 2011-04
(Continued)**

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council if such expenditure is otherwise valid.
2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account 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 Certificate** – The Village may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Clerk/Treasurer did not certify or record the amount against the applicable appropriation accounts for 100% of tested expenditures in 2011 and 2010. The Village did not properly utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations for the full amount of the expenditure could result in overspending in negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

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

Officials' Response

The Village agrees with the auditor's findings. Ideally, the Village's accounting software would provide proper certification language and documentation as part of the disbursement process. Unfortunately, the accounting software used by the Village is antiquated and does not provide adequate certification documentation. It is the Fiscal Officer's desire to implement the Ohio Auditor of State's Uniform Accounting Network software, which would resolve this compliance issue (as well as many others). However, that has not been possible due to the Village's dire General Fund financial situation (see Finding Number 2011-03 above). Additionally, the Ohio Auditor of State has informed the Village that no new entities will be permitted to join the Uniform Accounting Network until late summer or fall of 2013 at the earliest.

FINDING NUMBER 2011-05

Material Weakness

Posting Receipts and Disbursements

The Clerk/Treasurer did not correctly code and classify the following receipts and disbursements in 2010 and 2011 which resulted in adjustments and reclassifications to the financial statements. The Village Fiscal Officer has agreed to the reclassifications and the adjustments and these corrected amounts are reflected in the accompanying financial statements. The adjustments have also been posted to the Village ledgers.

2011			
Fund Name	Account Type	Amount	Description
Reclassifications			
Permissive MVL	Local taxes	\$1,885	Local taxes had been classified as intergovernmental revenue
2010			
Adjustments			
Water	Intergovernmental revenue	\$26,161	Principal forgiveness payment made through OWDA not posted by the Village.
	Redemption of principal	\$26,161	
Water	Sale of notes	\$164,826	Debt proceeds and disbursements for OWDA project had not been posted
	Capital outlay	\$164,826	
Fire Levy	Intergovernmental revenue	\$679	Revenue had been posted to the general fund as local taxes
Reclassifications -			
Street Construction, Maintenance & Repair	Redemption of principal	\$510	Debt disbursements classified as general government disbursements.
	Interest	\$106	
Water	Redemption of Principal	\$7,264	Debt disbursements classified as supplies & materials disbursements.
Sewer	Redemption of principal	\$2,421	Debt disbursements classified as supplies & materials disbursements.
	Interest	\$2,141	
Street Construction, Maintenance & Repair	Capital outlay	\$11,500	Disbursement for truck purchase classified as general government.
Water	Capital outlay	\$51,750	Disbursements for capital outlay had been posted as operating: supplies & materials.
General	Intergovernmental revenue	\$356	Revenue had been posted as local taxes

The Clerk/Treasurer should maintain the accounting system to enable the Village to identify, assemble, analyze, classify, record, and report all transactions and to maintain accountability. All transactions should be properly coded and classified to help ensure that financial activity of the Village is accurately recorded and reported.

Officials' Response

The Village has worked steadfastly over the past year to improve the accuracy of its accounting system. As evidenced by the audit report, the number of adjustments and reclassifications improved from three and six, respectively, in 2010 to zero and one, respectively, in 2011. The Village is evaluating and enhancing its accounting operations on a continuous basis in an effort to improve the accuracy, reliability, efficiency, and effectiveness of its accounting processes, procedures, and operations. As mentioned in the response to Finding Number 2011-04, implementation of the Ohio Auditor of State's Uniform Accounting Network software would help resolve several accounting issues, but that option is unfortunately not available at this time.

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**VILLAGE OF RAYLAND
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Ohio Revised Code Section 5705.36 to certify to the county auditor total amount from all sources available for expenditure and Ohio Revised Code Section 5705.39 appropriations exceeding estimated resources for all funds.	No	Cited again as finding 2011-02.
2009-02	Ohio Revised Code Section 5705.41(B) Disbursements exceeded appropriations in the Water Fund.	No	Cited again as finding 2011-01
2009-03	Ohio Revised Code Section 5705.41(D) Expenditures not properly certified.	No	Cited again as finding 2011-04
2009-04	Ohio Revised Code Section 733.28 Clerk Treasurer to keep accurate and complete books of the Village.	Yes	Improvements were noted but the issue has not been fully corrected. Cited again as finding 2011-05.

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Dave Yost • Auditor of State

VILLAGE OF RAYLAND

JEFFERSON 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
OCTOBER 16, 2012