

VILLAGE OF BAILEY LAKES

ASHLAND COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2015 and 2014





Dave Yost • Auditor of State

Members of Council
Village of Bailey Lakes
1244 Second Street
P.O. Box 989
Ashland, Ohio 44805

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, 2014 through December 31, 2015. 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.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

October 25, 2016

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VILLAGE OF BAILEY LAKES
ASHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

Village of Bailey Lakes
Ashland County
1244 Second Street
P.O. Box 989
Ashland, Ohio 44805

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Bailey Lakes, Ashland County, (the Village) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2015 and 2014, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Bailey Lakes, Ashland County as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
July 22, 2016

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 8,496	-	\$ 8,496
Intergovernmental	26,673	\$ 19,524	46,197
Charges for Services	1,425	-	1,425
Fines, Licenses and Permits	720	-	720
Earnings on Investments	18	-	18
Miscellaneous	281	-	281
<i>Total Cash Receipts</i>	<u>37,613</u>	<u>19,524</u>	<u>57,137</u>
Cash Disbursements			
Current:			
Security of Persons and Property	3,305	-	3,305
Public Health Services	129	-	129
Leisure Time Activities	3,005	-	3,005
Community Environment	3,174	-	3,174
Transportation	253	13,945	14,198
General Government	16,059	-	16,059
<i>Total Cash Disbursements</i>	<u>25,925</u>	<u>13,945</u>	<u>39,870</u>
<i>Net Change in Fund Cash Balances</i>	11,688	5,579	17,267
<i>Fund Cash Balances, January 1</i>	<u>28,172</u>	<u>36,361</u>	<u>64,533</u>
Fund Cash Balances, December 31			
Restricted	-	41,940	41,940
Unassigned	39,860	-	39,860
<i>Fund Cash Balances, December 31</i>	<u>\$ 39,860</u>	<u>\$ 41,940</u>	<u>\$ 81,800</u>

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

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Proprietary Fund Types
	Enterprise Fund
Operating Cash Receipts:	
Charges for Services	\$ 136,317
Fines, Licenses and Permits	100
	136,417
Total Operating Cash Receipts	136,417
Operating Cash Disbursements	
Personal Services	7,568
Employee Fringe Benefits	922
Contractual Services	77,115
Supplies and Materials	6,712
Total Operating Cash Disbursements	92,317
Operating Income (Loss)	44,100
Non-Operating Receipts (Disbursements):	
Principal Retirement	(5,252)
Interest and Fiscal Charges	(1,044)
	(6,296)
Total Non-Operating Receipts (Disbursements)	(6,296)
Net Change in Fund Cash Balance	37,804
Fund Cash Balance, January 1	160,832
Fund Cash Balance, December 31	\$ 198,636

See accompanying Notes to the Financial Statements.

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 8,811	-	\$ 8,811
Intergovernmental	22,405	\$ 19,700	42,105
Charges for Services	750	-	750
Fines, Licenses and Permits	745	-	745
Earnings on Investments	10	-	10
Miscellaneous	287	-	287
<i>Total Cash Receipts</i>	<u>33,008</u>	<u>19,700</u>	<u>52,708</u>
Cash Disbursements			
Current:			
Security of Persons and Property	4,102	-	4,102
Public Health Services	146	-	146
Leisure Time Activities	4,059	-	4,059
Community Environment	3,109	-	3,109
Transportation	829	25,957	26,786
General Government	17,363	-	17,363
<i>Total Cash Disbursements</i>	<u>29,608</u>	<u>25,957</u>	<u>55,565</u>
<i>Net Change in Fund Cash Balances</i>	3,400	(6,257)	(2,857)
<i>Fund Cash Balances, January 1</i>	<u>24,772</u>	<u>42,618</u>	<u>67,390</u>
Fund Cash Balances, December 31			
Restricted	-	36,361	36,361
Unassigned	28,172	-	28,172
<i>Fund Cash Balances, December 31</i>	<u>\$ 28,172</u>	<u>\$ 36,361</u>	<u>\$ 64,533</u>

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

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Proprietary Fund Types
	Enterprise Fund
Operating Cash Receipts:	
Charges for Services	\$ 129,886
Miscellaneous	1,200
Total Operating Cash Receipts	131,086
 Operating Cash Disbursements	
Personal Services	6,820
Employee Fringe Benefits	754
Contractual Services	94,876
Supplies and Materials	16,965
Total Operating Cash Disbursements	119,415
Operating Income (Loss)	11,671
 Non-Operating Receipts (Disbursements):	
Principal Retirement	(5,091)
Interest and Fiscal Charges	(1,205)
Total Non-Operating Receipts (Disbursements)	(6,296)
Net Receipts Over Disbursements	5,375
Fund Cash Balance, January 1	155,457
Fund Cash Balance, December 31	\$ 160,832

See accompanying Notes to the Financial Statements.

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements
December 31, 2015 and 2014**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Bailey Lakes, Ashland 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, park operations, and general government services. The Village contracts with the Ashland County Sheriff's department to provide security of persons and property.

The Village participates in the Ohio Government Risk Management Plan, a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. Council recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Village has no investments. Cash consists of demand deposits.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

1. Summary of Significant Accounting Policies (continued)

D. Fund Accounting (continued)

2. Special Revenue Funds (continued)

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

Permissive Tax Fund – This fund receives permissive motor vehicle tax money for constructing, maintaining, and repairing Village streets.

3. 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.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except agency funds) be budgeted annually.

1. Appropriations

Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried forward to the subsequent year.

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

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

1. Summary of Significant Accounting Policies (continued)

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

1. Summary of Significant Accounting Policies (continued)

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. The carrying amount of deposits at December 31 was as follows:

	2015	2014
Demand deposits	\$280,436	\$225,365
Total deposits and investments	\$280,436	\$225,365

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$71,786	\$25,925	\$45,861
Special Revenue	52,439	13,945	38,494
Enterprise	258,678	98,613	160,065
Total	\$382,903	\$138,483	\$244,420

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$49,791	\$37,613	(\$12,178)
Special Revenue	18,000	19,524	1,524
Enterprise	120,000	136,417	16,417
Total	\$187,791	\$193,554	\$5,763

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

3. Budgetary Activity (continued)

2014 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$72,142	\$29,608	\$42,534
Special Revenue	61,656	25,957	35,699
Enterprise	255,256	125,711	129,545
Total	\$389,054	\$181,276	\$207,778

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$51,524	\$33,008	(\$18,516)
Special Revenue	19,038	19,700	662
Enterprise	120,000	131,086	11,086
Total	\$190,562	\$183,794	(\$6,768)

4. Property Tax

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

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

Ashland 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, 2015 was as follows:

	Principal	Interest Rate
Farmers State Bank Loan # 1053248	\$ 22,760	4.00%
Total	\$ 22,760	

In 2012, the Village entered into a loan agreement with Farmers State Bank. The loan was used to purchase a backup generator and electrical panel for the waste water plant. The loan will be repaid in eighty four (84) payments of \$525. The loan is collateralized by sewer receipts. The Village has agreed to set sewer rates sufficient to cover debt service requirements. The loan is being repaid from the sewer Fund.

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

5. Debt (continued)

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

	Farmer State Bank
Year ending December 31:	Loan # 1053248
2016	\$ 6,296
2017	6,296
2018	6,296
2019	5,771
Total	\$ 24,659

6. Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plan. 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 2015 and 2014, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

7. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 783 members as of December 31, 2013 and 2014, respectively.

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, remain the responsibility of the Plan.

**Village of Bailey Lakes
Ashland County**

**Notes to the Financial Statements (continued)
December 31, 2015 and 2014**

7. Risk Management (continued)

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013 and 2014 (the latest information available).

	2013	2014
Assets	<u>\$13,774,304</u>	<u>\$14,830,185</u>
Liabilities	<u>(7,968,395)</u>	<u>(8,942,504)</u>
Members' Equity	<u>\$5,805,909</u>	<u>\$5,887,681</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

8. Contingent Liabilities

Management believes there are no pending claims or lawsuits

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Village of Bailey Lakes
Ashland County
1244 Second Street
P.O. Box 989
Ashland, Ohio 44805

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Bailey Lakes, Ashland County (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated July 22, 2016 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2015-001.

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 22, 2016.

Village's Response to Finding

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris and Associates, Inc.
July 22, 2016

**VILLAGE OF BAILEY LAKES
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2015 and 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2015-001 - Ohio Revised Code Non-Compliance

Certification of Expenditures

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 resolution or ordinance.

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 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.

During fiscal years 2015 and 2014, 14% of purchase orders tested were not certified by the Village Clerk prior to incurring the obligation. The transactions had no evidence of the above mentioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

VILLAGE OF BAILEY LAKES
ASHLAND COUNTY

SCHEDULE OF FINDINGS
December 31, 2015 and 2014

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>
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Finding Number 2015-001 - Ohio Revised Code Non-Compliance (continued)

Certification of Expenditures (continued)

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 expenditures exceeding budgetary spending limitations, we recommend that the Village certify expenditures prior to incurring the liability.

Management Response:

We only used "then and now" in the past. In recent years, the Village tried to use Super Blanket Certificates, while using "then and now" for unexpected expenses. However, expenses that need immediate attention and come up between council meetings make it challenging to use the proper certificate. We are aware of it specially the date requirements and will try to do them correctly going forward.

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Dave Yost • 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
NOVEMBER 10, 2016