



Dave Yost • Auditor of State



VILLAGE OF ROCHESTER  
LORAIN COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
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, 2010 .....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009 .....	6
Notes to the Financial Statements .....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	13
Schedule of Findings .....	15
Schedule of Prior Audit Findings .....	17

**This page intentionally left blank.**



# Dave Yost • Auditor of State

Village of Rochester  
Lorain County  
P.O. Box 85  
Wellington, Ohio 44090

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 Village 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.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

October 13, 2011

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Rochester  
Lorain County  
P.O. Box 85  
Wellington, Ohio 44090

To the Village Council:

We have audited the accompanying financial statements of the Village of Rochester, Lorain County, Ohio (the Village) as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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 Villages 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, 2010 and 2009 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, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Rochester, Lorain County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 October 13, 2011, 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.



**Dave Yost**  
Auditor of State

October 13, 2011



**VILLAGE OF ROCHESTER  
LORAIN 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**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$9,665	\$0	\$9,665
Intergovernmental	22,293	12,057	34,350
Fines, Licenses and Permits	451	0	451
Earnings on Investments	1,335	122	1,457
Miscellaneous	115	0	115
	<u>33,859</u>	<u>12,179</u>	<u>46,038</u>
<b>Total Cash Receipts</b>			
	<u>33,859</u>	<u>12,179</u>	<u>46,038</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	1,604	0	1,604
Leisure Time Activities	3,379	0	3,379
Community Environment	3,810	14,699	18,509
Transportation	0	8,636	8,636
General Government	11,539	0	11,539
	<u>20,332</u>	<u>23,335</u>	<u>43,667</u>
<b>Total Cash Disbursements</b>			
	<u>20,332</u>	<u>23,335</u>	<u>43,667</u>
Total Receipts Over/(Under) Disbursements	<u>13,527</u>	<u>(11,156)</u>	<u>2,371</u>
Fund Cash Balances, January 1	<u>142,276</u>	<u>174,450</u>	<u>316,726</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$155,803</u></u>	<u><u>\$163,294</u></u>	<u><u>\$319,097</u></u>

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

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$11,718	\$0	\$0	\$11,718
Intergovernmental	23,265	17,609	15,918	56,792
Fines, Licenses and Permits	72	0	0	72
Earnings on Investments	1,150	1,280	0	2,430
Miscellaneous	291	0	0	291
Total Cash Receipts	<u>36,496</u>	<u>18,889</u>	<u>15,918</u>	<u>71,303</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	1,880	0	0	1,880
Leisure Time Activities	3,185	0	0	3,185
Community Environment	2,604	3,134	0	5,738
Transportation	0	11,726	0	11,726
General Government	25,448	0	0	25,448
Capital Outlay	0	0	15,918	15,918
Total Cash Disbursements	<u>33,117</u>	<u>14,860</u>	<u>15,918</u>	<u>63,895</u>
Total Receipts Over Disbursements	<u>3,379</u>	<u>4,029</u>	<u>0</u>	<u>7,408</u>
Fund Cash Balances, January 1	<u>138,897</u>	<u>170,421</u>	<u>0</u>	<u>309,318</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$142,276</u></u></b>	<b><u><u>\$174,450</u></u></b>	<b><u><u>\$0</u></u></b>	<b><u><u>\$316,726</u></u></b>

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

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 Rochester, Lorain County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, including park operations and street maintenance. The Village contracts with the Lorain County Sheriff's department to provide security of persons and property. The Village contracts with Rochester Township to receive fire protection services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles. See Note 6 to the financial statements for additional information.

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 repurchase agreements 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 ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting (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 Funds:

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

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing state highways within the Village.

**3. Capital Project Funds**

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

Capital Improvement Fund – This fund is used to account for proceeds of Ohio Public Works Commission grants. The proceeds are used for various street improvement projects.

**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 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.

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**2. Equity in Pooled Deposits and Investments**

The Village maintains a deposit and investments 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:

	<u>2010</u>	<u>2009</u>
Demand deposits	\$10,469	\$4,194
Total deposits	<u>10,469</u>	<u>4,194</u>
Repurchase agreement	308,628	312,532
Total investments	<u>308,628</u>	<u>312,532</u>
Total deposits and investments	<u>\$319,097</u>	<u>\$316,726</u>

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**Investments:** The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$46,804	\$33,859	(\$12,945)
Special Revenue	16,282	12,179	(4,103)
Total	<u>\$63,086</u>	<u>\$46,038</u>	<u>(\$17,048)</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$130,000	\$20,332	\$109,668
Special Revenue	165,282	23,335	141,947
Total	<u>\$295,282</u>	<u>\$43,667</u>	<u>\$251,615</u>

2009 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$47,867	\$36,496	(\$11,371)
Special Revenue	16,282	18,889	2,607
Capital Projects	0	15,918	15,918
Total	<u>\$64,149</u>	<u>\$71,303</u>	<u>\$7,154</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$160,000	\$33,117	\$126,883
Special Revenue	160,282	14,860	145,422
Capital Projects	0	15,918	(15,918)
Total	<u>\$320,282</u>	<u>\$63,895</u>	<u>\$256,387</u>

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the Capital Projects fund by \$15,918 for the year ended December 31, 2009.

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**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.

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. Retirement Systems**

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

For 2010 and 2009, 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, 2010.

**6. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**6. Risk Management (Continued)**

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Net Assets	<u>\$20,631,198</u>	<u>\$21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village's share of these unpaid claims collectible in future years is approximately \$4,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
<u>2010</u>	<u>2009</u>
\$1,439	\$1,715

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.





# 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 Rochester  
Lorain County  
P.O. Box 85  
Wellington, Ohio 44090

To the Village Council:

We have audited the financial statements of the Village of Rochester, Lorain County, Ohio (the Village) as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated October 13, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 2010-01 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 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 2010-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 13, 2011.

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



**Dave Yost**  
Auditor of State

October 13, 2011

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2010-01**

**Material Weakness**

**Financial Reporting**

An entity's accounting system encompasses the sequence of steps followed in the accounting process, from analyzing and recording transactions, posting entries, adjusting and closing accounts, and preparing financial statements. The Village filed annual financial statements with the Auditor of State under Ohio Revised Code Section 117.38 for 2010 and 2009. During our testing of the Village's receipt and expenditure cycles, several mispostings to the Village's records and draft financial statements were noted. We noted the following weaknesses and the Village made subsequent adjustments to the financial statements and, where applicable, to the Village's accounting records:

- Homestead/Rollback Reimbursements, Personal Property Reimbursements and Public Utility Reimbursements were reclassified from Property Tax Revenue to Intergovernmental Revenue in the General Fund in 2010 and 2009.
- Intergovernmental Revenue and Miscellaneous Revenue in the General Fund were reclassified from Other Financing Sources in 2010 and 2009.
- General Fund expenditures misclassified as Other Financing Uses were reclassified to General Government in 2010 and 2009.
- Receipts and expenditures for an OPWC payment to Midview Excavating that were not recorded by the Village in UAN were adjusted and posted to the Capital Projects Fund in 2009.
- Auto Registration receipts were adjusted from the General Fund to the Street Construction Maintenance Repair and State Highway Funds in 2010 and 2009.
- The Solid Waste District Grant Fund established in 2008 was reported by the Village as an Agency Fund. Audit adjustments were made to record the revenues and expenditures as a Special Revenue Fund on the financial statements. The Village has no Agency Funds.
- Beginning cash balances in the Village's UAN system in 2009 were adjusted to match the 2008 audit report released by AOS.

The Village should evaluate its methods for the processing of receipts. The Village should post receipts to the proper funds and line items within each fund. The receipt posting should be accurate and complete in accordance with the revenue's purpose.

We recommend when the Village has any uncertainty when classifying receipts, to contact an appropriate source for guidance. That source may include the Auditor of State; however, the Village must recognize the Independence Standards that keep the Auditor of State from posting transactions on the Village's behalf. Routine advice does not compromise this principle.

*Officials' Response:*

The Village is in the process of evaluating the methods for processing receipts in order to post all receipts in the proper fund and line item. When there is any uncertainty how to classify a receipt, an appropriate source will be contacted for assistance. Our goal is to have a properly prepared annual financial report every year.

**VILLAGE OF ROCHESTER  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2010-02**

**Material Noncompliance**

**Budgeting for OPWC Receipts and Expenditures**

Chapter 5075 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more than it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted to and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded, per § 5075.42, Revised Code. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation, per § 5705.40, Revised Code. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action, per § 5705.38, Revised Code.

During 2009, the Village was the beneficiary of Ohio Public Works Commission (OPWC) monies that were paid directly to the vendor by OPWC. On behalf of the Village, OPWC paid the vendor \$15,918. The Village did not record the related memo receipt and expenditure transactions on its financial statements in the required fund, and did not amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures. This resulted in the understatement of revenue and expenditure activity for the Capital Improvement Fund. However, Auditor of State Bulletin 2000-008 and 2002-004 suggest recording these transactions as receipts and disbursements when the Village applies for a project and has administrative responsibilities.

When approved for funding by a State or Federal agency, the Village should follow the reporting requirements summarized by Auditor of State Bulletins 2000-008 and 2002-004, as well as applicable budgetary requirements of the Ohio Revised Code. When the Village receives notice that funds will be expended on its behalf, the Village should certify the available resources to the County Budget Commission and amend appropriations to account for the expected grant receipts and expenditures.

*Officials' Response:*

The Village is aware of this issue and it will be corrected for future years.

VILLAGE OF ROCHESTER  
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	Financial Reporting; Numerous adjustments and reclassifications were made to the financial statements	No	Reissued as Finding 2010-01

**This Page is Intentionally Left Blank.**



# Dave Yost • Auditor of State

VILLAGE OF ROCHESTER

LORAIN 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 25, 2011