

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO**

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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



Dave Yost • Auditor of State

Members of Council
Village of Rock Creek
3081 W. Water Street
PO Box 92
Rock Creek, Ohio 44084

We have reviewed the *Report of Independent Accountants* of the Village of Rock Creek, Ashtabula County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

Dave Yost
Auditor of State

November 17, 2011

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VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2010 and 2009

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1-2
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010	3
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 2010	4
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009	5
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 2009	6
Notes to the Financial Statements	7-17
Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	18-19
Schedule of Findings	20-23
Schedule of Prior Audit Findings	24

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

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

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Rock Creek
Ashtabula County
3081 West Water Street
P.O. Box 92
Rock Creek, Ohio 44084

To the Village Council:

We have audited the accompanying financial statements of the Village of Rock Creek, Ashtabula 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. We believe that our audit provides a reasonable basis for our opinion.

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

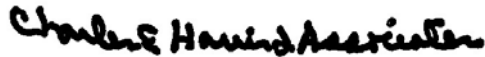
Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2010 and 2009. Instead of the combined funds the accompanying financial statements present for 2010 and 2009, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2010 and 2009. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 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 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 and reserves for encumbrances of the Village of Rock Creek, Ashtabula County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2010 and 2009. 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 September 26, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Charles E. Harris & Associates, Inc.
September 26, 2011

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Other Local Taxes	\$ 22,872	\$ 34,232	-	\$ 57,104
Municipal Income Tax	64,744	-	\$ 7,172	71,916
Intergovernmental	27,149	34,824	-	61,973
Fines, Licenses & Permits	125	-	-	125
Earnings on Investments	1,068	50	-	1,118
Miscellaneous	17,644	547	-	18,191
Total Cash Receipts	133,602	69,653	7,172	210,427
Cash Disbursements:				
Current:				
Security of Persons & Property	161	8,878	-	9,039
Community Environment	319	-	-	319
Basic Utility Service	525	-	-	525
Transportation	5,907	32,865	-	38,772
General Government	101,280	488	-	101,768
Capital Outlay	255	-	25,776	26,031
Debt Service:				
Principal Payment	25,000	4,026	2,735	31,761
Interest and Fiscal Charges	-	-	1,492	1,492
Total Cash Disbursements	133,447	46,257	30,003	209,707
Total Receipts Over/(Under) Disbursements	155	23,396	(22,831)	720
Other Financing Sources/(Uses):				
Sale of Notes	-	-	39,366	39,366
Other Financing Uses	-	(3,257)	-	(3,257)
Other Financing Sources	2,164	-	-	2,164
Total Other Financing Sources/(Uses)	2,164	(3,257)	39,366	38,273
Excess of Cash Receipts and Other Financing Sources Over / (Under) Cash Disbursements and Other Financing Uses	2,319	20,139	16,535	38,993
Fund Cash Balance, January 1, See Note 12	10,968	108,775	58	119,801
Fund Cash Balance, December 31	\$ 13,287	\$ 128,914	\$ 16,593	\$ 158,794

See accompanying Notes to the Financial Statements.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Proprietary Fund Types <u>Enterprise Fund</u>	Fiduciary Fund Types <u>Agency Fund</u>	<u>Total</u>
Operating Cash Receipts:			
Charges for Services	\$ 274,158	-	\$ 274,158
Miscellaneous	9,446	-	9,446
Total Operating Cash Receipts	283,604	-	283,604
Operating Cash Disbursements:			
Personal Services	25,644	-	25,644
Contractual Services	93,439	-	93,439
Supplies & Materials	94,730	-	94,730
Total Operating Cash Disbursements	213,813	-	213,813
Operating Income/(Loss)	69,791	-	69,791
Non-Operating Cash Receipts/(Disbursements):			
Other Financing Sources	2,330	-	2,330
Interest and Other Fiscal Charges	(12,323)	-	(12,323)
Redemption of Principal	(41,366)	-	(41,366)
Other Financing Uses	(2,815)	-	(2,815)
Excess of Receipts Over Disbursements	15,617	-	15,617
Fund Cash Balance, January 1, See Note 12	298,978	\$ 117	299,095
Fund Cash Balance, December 31	\$ 314,595	\$ 117	\$ 314,712

See accompanying Notes to the Financial Statements.

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

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Other Local Taxes	\$ 24,914	\$ 38,884	-	\$ 63,798
Municipal Income Tax	48,200	-	\$ 5,356	53,556
Intergovernmental	43,333	24,163	9,446	76,942
Fines, Licenses & Permits	85	-	-	85
Earnings on Investments	4,729	923	-	5,652
Miscellaneous	36,113	55	-	36,168
Total Cash Receipts	157,374	64,025	14,802	236,201
Cash Disbursements:				
Current:				
Security of Persons & Property	18,000	15,500	-	33,500
Public Health Services	-	2,209	-	2,209
Basic Utility Service	2,000	-	-	2,000
Transportation	-	47,899	-	47,899
General Government	71,262	-	-	71,262
Capital Outlay	8,434	-	13,590	22,024
Debt Service:				
Principal Payment	-	43,965	7,744	51,709
Interest and Fiscal Charges	-	4,280	1,662	5,942
Total Cash Disbursements	99,696	113,853	22,996	236,545
Total Receipts Over/(Under) Disbursements	57,678	(49,828)	(8,194)	(344)
Fund Cash Balance, January 1	13,287	128,914	16,593	158,794
Fund Cash Balance, December 31	\$ 70,965	\$ 79,086	\$ 8,399	\$ 158,450
Reserve for Encumbrances, December 31	\$ 1,577	\$ 825	\$ -	\$ 2,402

See accompanying Notes to the Financial Statements.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Proprietary</u> <u>Fund Types</u> <u>Enterprise Fund</u>	<u>Fiduciary</u> <u>Fund Types</u> <u>Agency Fund</u>	<u>Total</u>
Operating Cash Receipts:			
Charges for Services	\$ 241,950	-	\$ 241,950
Total Operating Cash Receipts	241,950	-	241,950
Operating Cash Disbursements:			
Personal Services	31,558	-	31,558
Employee Fringe Benefits	6,951	-	6,951
Contractual Services	85,720	-	85,720
Supplies & Materials	87,996	-	87,996
Miscellaneous	591	-	591
Total Operating Cash Disbursements	212,816	-	212,816
Operating Income/(Loss)	29,134	-	29,134
Non-Operating Cash Receipts/(Disbursements):			
Other Financing Sources	86	615	701
Capital Outlay	(9,299)	-	(9,299)
Proceeds from Note	1,010	-	1,010
Interest and Other Fiscal Charges	(12,936)	-	(12,936)
Redemption of Principal	(60,905)	-	(60,905)
Excess of Receipts Over Disbursements	(52,910)	615	(52,295)
Fund Cash Balance, January 1	314,595	117	314,712
Fund Cash Balance, December 31	\$ 261,685	\$ 732	\$ 262,417
Reserve for Encumbrances, December 31	\$ 909	\$ -	\$ 909

See accompanying Notes to the Financial Statements.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Rock Creek, Ashtabula County (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six member Council. The Village provides water and sewer utilities. The Village contracts with Ashtabula County Sheriff's Department to provide security of persons and property. The Village contracts with Morgan Township to receive fire protection services.

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

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

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

C. CASH AND INVESTMENTS

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

D. FUND ACCOUNTING

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

Governmental Fund Types:

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

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009

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

D. **FUND ACCOUNTING** (continued)

Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village has 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.

Street Lighting Fund – This fund receives property tax money to provide street lights throughout the Village.

Capital Projects: These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project funds:

Permanent Improvement Fund – This fund receives 10% of income taxes collected by the Village, the revenue is used to finance improvements within the Village.

Water Loan EPA Fund- This fund receives a water user surcharge collected by the Village. The revenue is used to repay EPA ordered fines and improvements.

Proprietary Fund Types:

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

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

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

Fiduciary Funds (Agency Funds): These funds are used to account for custodial funds held by the Village acting as an agent for another government, organization, individual or fund. The Village had the following Fiduciary Fund:

Unclaimed Money Fund – This fund accounts for resources which have not been claimed by the rightful owner.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 commitments are made. Encumbrances outstanding at year-end are carried-forward and need not be re-appropriated.

A summary of 2010 and 2009 budgetary activity appears in Note 4.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2010	2009
Demand Deposits	\$ 168,896	\$ 273,506
Investments:		
Certificates of Deposit	-	200,000
Total deposits and investments	\$ 420,867	\$ 473,506

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

3. PROPERTY TAXES

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the Village. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Ashtabula County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the Village was completed in 2010. The next update is scheduled for 2013.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due December 31, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) received during calendar year 2010 represent the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied April 1, 2009 on the values listed as of December 31, 2009. Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Ashtabula County Treasurer collects property taxes on behalf of the Village. The Ashtabula County Auditor remits the collected taxes to the Village. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

4. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

5. BUDGETARY ACTIVITY

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

2009 Budgeted vs. Actual Receipts			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 151,800	\$ 135,766	\$ (16,034)
Special Revenue	66,433	69,653	3,220
Capital Projects	8,052	46,538	38,486
Enterprise	305,250	285,934	(19,316)
Total	<u>\$ 531,535</u>	<u>\$ 537,891</u>	<u>\$ 6,356</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 128,422	\$ 133,447	\$ (5,025)
Special Revenue	95,995	49,514	46,481
Capital Projects	18,100	30,003	(11,903)
Enterprise	415,773	270,317	145,456
Total	<u>\$ 658,290</u>	<u>\$ 483,281</u>	<u>\$ 175,009</u>

2010 Budgeted vs. Actual Receipts			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 156,171	\$ 157,374	\$ 1,203
Special Revenue	71,367	64,025	(7,342)
Capital Projects	21,642	14,802	(6,840)
Enterprise	305,250	243,046	(62,204)
Total	<u>\$ 554,430</u>	<u>\$ 479,247</u>	<u>\$ (75,183)</u>

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009

4. BUDGETARY ACTIVITY (continued)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 128,000	\$ 101,273	\$ 26,727
Special Revenue	96,400	114,678	(18,278)
Capital Projects	18,100	22,996	(4,896)
Enterprise	411,000	296,865	114,135
Total	\$ 653,500	\$ 535,812	\$ 117,688

5. RETIREMENT SYSTEM

Employees of the Village belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a state operated, cost sharing, multiple employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 10% of their gross pay while the Village contributed an amount equal to 14% of covered payroll. The Village paid all required contributions through 2010.

6. RISK MANAGEMENT

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 insurance 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.

Casualty Insurance

PEP retains casualty risk up to \$350,000 per claim, including automobile loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$350,000, up to \$2,650,000 per claim and \$10,000,000 in aggregate per year. Governments can elect additional coverage, from \$3,000,000 to \$13,000,000, from General Reinsurance Corporation.

If losses exhaust PEP’s retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to an annual aggregate of \$10,000,000.

Property Insurance

Beginning in 2005, Travelers reinsures specific losses exceeding \$500,000 up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$150,000 up to \$500,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members’ total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

6. RISK MANAGEMENT - (continued)

The aforementioned casualty and property reinsurance agreements do 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 (the latest information available):

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

Based on discussion 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 each year of the membership.

Contributions to PEP

2008	\$0
2009	\$3,309
2010	\$3,057

Members may withdraw in each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of their anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus subsequent year's premium. Also, upon withdrawal, payments of all property and casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year. The Village also provides health insurance, dental, and vision coverage to full-time employees through a private carrier.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

7. DEBT

Debt outstanding at December 31, 2010 is as follows:

<u>Description</u>	<u>Principal</u>	<u>Interest Rate</u>
OWDA Loan - 1846	\$ 20,725	7.89%
OWDA Loan - 4534	237,876	1.00%
OWDA Loan -2855	188,971	2.00%
Mortgage Revenue Bonds - 8601	31,000	5.00%
Mortgage Revenue Bonds - 8602	52,000	5.00%
G.O. Promissory Notes	24,048	4.25%
OPWC Loan - CG22D	104,674	0.00%
OPWC Loan - CG02I	41,250	0.00%
OPWC Loan - CT08L	41,235	0.00%
	<u>\$ 741,779</u>	

The Ohio Water Development Authority (OWDA) loan #1846 relates to the sewer improvements. The loan has one payment of \$20,725 remaining. The Village originally borrowed \$442,740 in 1989. The loan is collateralized by sewer receipts.

The Ohio Water Development Authority (OWDA) loan #4534 relates to the water distribution improvements. The loan will be repaid in semi-annual installments of \$5,206 including interest over a thirty-year period. The Village originally borrowed \$229,822. The loan is collateralized by water receipts.

The Ohio Water Development Authority (OWDA) loan #2855 relates to the construction at the water treatment plant. The loan will be repaid in semi-annual installments of \$18,319 including interest over a twenty five-year period. The Village originally borrowed \$715,314. The loan is collateralized by water receipts.

The Mortgage Revenue Bond #8601 relates to financing improvements made to the Village's waterworks system. The bond will be repaid in annual installments of \$5,000 plus interest over a forty-year period. The Village originally borrowed \$115,000. The bonds are to be secured by mortgaging all the properties of the Village used in and directly connected with the operation of the Utility.

The Mortgage Revenue Bond #8602 relates to financing improvements made to the Village's waterworks system. The bond will be repaid in annual installments of \$7,000 plus interest over a forty-year period. The Village originally borrowed \$180,000. The bonds are to be secured by mortgaging all the properties of the Village used in and directly connected with the operation of the Utility.

The Village has two promissory notes with Huntington Bank. One note was issued for the purchase land in 2007. The note will be repaid over ten years. The original issue was \$36,000. The note will be paid back in 120 monthly payments of \$384. The other note was issued for the purchase of the Industrial Park in 2008. The note will be repaid over three years. The original issue was \$22,250. The note will be paid back in 36 monthly payments of \$672.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

7. DEBT (continued)

The Ohio Public Works Commission (OPWC) loan # CG22D was issued to finance waterline improvements for East Water. The original issue for Water Street was for \$161,037 and will be repaid in semiannual installments of \$4,026 over 20 years. The final principal payment is due on January 1, 2024.

The Ohio Public Works Commission (OPWC) loan # CG02I was issued for Water Street Improvements. The original issue for Water System Improvement Loan was \$50,000 and will be repaid in semiannual installments of \$1,250, over 20 years. These loans are collateralized by water user fees. The final principal payment is due on January 1, 2027.

The Ohio Public Works Commission (OPWC) loan # CT08L was issued for the Jefferson Street Phase I improvement. The original issue was in the amount of \$43,468 and will be repaid in semiannual installments of \$1,087, over 20 years. These loans are collateralized by water user fees. The final principal payment is due on July 1, 2030.

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

Year Ended:	OWDA Loan #1846	OWDA Loan #4534	OWDA Loan #2855	Mortgage Revenue Bond #8601	Mortgage Revenue Bond #8602
2011	\$ 20,725	\$ 10,052	\$ 36,638	\$ 6,550	\$ 9,600
2012	-	10,052	36,638	6,300	9,250
2013	-	10,052	36,638	6,050	8,900
2014	-	10,052	36,638	5,800	8,550
2015	-	10,052	36,638	5,550	8,200
2016-2020	-	50,260	18,319	6,000	7,850
2021-2025	-	50,260	-	-	7,500
2026-2030	-	50,260	-	-	3,000
2031-2035	-	50,260	-	-	
2036-2037	-	5,026	-	-	
Total	\$ 20,725	\$ 256,326	\$ 201,509	\$ 36,250	\$ 62,850

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

7. DEBT – (continued)

Year Ended:	G.O. Promissory Notes	OPWC Loan #CG22D	OPWC Loan #CG02I	OPWC Loan #CT08L
2011	\$ 4,611	\$ 8,052	\$ 2,500	\$ 2,174
2012	4,611	8,052	2,500	2,174
2013	4,611	8,052	2,500	2,174
2014	4,611	8,052	2,500	2,174
2015	4,611	8,052	2,500	2,174
2016-2020	9,222	8,052	12,500	10,870
2021-2025	-	40,260	12,500	10,870
2026-2030	-	16,102	3,750	8,625
2031-2035	-	-	-	-
2036-2037	-	-	-	-
Total	\$ 32,277	\$ 104,674	\$ 41,250	\$ 41,235

8. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

9. JOINTLY GOVERNED ORGANIZATION

Rock Creek Union Cemetery is directed by a three-member Board of Trustees to oversee the operations of the Cemetery. The board is appointed by the Village of Rock Creek and Morgan Township. These entities also provide funding to meet the Cemetery’s operating costs under the agreement which established the Cemetery.

10. BUDGETARY NONCOMPLIANCE

The following is a list of material budgetary noncompliance:

- 5705.39, Village had various funds’ appropriations exceed estimated resources.
- 5705.41(B), Village had numerous funds’ expenditures exceed appropriations.
- 5705.41(D), Village did not properly certify purchases in all instances.
- 5705.14-.16, Village had numerous transfers not approved by Council.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009

11. RESTATEMENT OF PRIOR YEAR FUND BALANCE

The Village and previous audit reports had improperly recorded delinquent utility payments that were assessed to property owners in the Debt Service Fund. Adjustment is to reclassify monies received in previous years to the Enterprise Funds to properly account for the activity.

	Fund Types	
	Debt Service	Enterprise Fund
Fund Cash Balance December 31, 2008	\$247,956	\$51,022
Restatement	(247,956)	247,956
Fund Cash Balance January 1, 2009	\$0	\$298,978

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

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

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

Village of Rock Creek
Ashtabula County
3081 West Water Street
P.O. Box 92
Rock Creek, Ohio 44084

To the Village Council:

We have audited the financial statements of the Village of Rock Creek, Ashtabula County Ohio (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated September 26, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of 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 to be 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 2010-005 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 agreement, 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 such 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 2010-001 through 2010-005.

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 also noted certain matters that we have reported to management of the Village in a separate letter dated September 26, 2011.

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

A handwritten signature in black ink that reads "Charles E. Harris" followed by a stylized flourish.

Charles E. Harris and Associates, Inc.
September 26, 2011

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Schedule of Findings
For the Years Ending December 31, 2010 and 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2010-001

Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated as provided in such chapter.

During the year ended December 31, 2010, the following funds' expenditures plus encumbrances exceeded total appropriations:

Street Lights Fund – Special Revenue Fund (\$44,219)
Water Meter – Water Loan EPA – Capital Projects Fund (\$13,590)
Capital Projects Jefferson Street – Capital Projects Fund (\$25,776)
Water Surplus II – Enterprise Fund (\$3,977)

During the year ended December 31, 2009, the following funds' expenditures plus encumbrances exceeded total appropriations:

General Fund (\$5,023)
Surplus Fund – Enterprise Fund (\$77)
Water Surplus II – Enterprise Fund (\$262)
Water Debt Service – Enterprise Fund (\$4,723)

The Village should monitor expenditures more closely to ensure they do not expend more than has been lawfully appropriated. Further, the Village should revise their appropriation ordinance during the year as needed to ensure that expenditures plus encumbrances do not exceed appropriations.

Official's Response:

New management is implementing budgetary procedures to avoid expenditures exceeding appropriations in the future.

Finding Number 2010-002

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

At December 31, 2010, the following funds' appropriations exceeded total estimated resources:

East Water Street Fund – Capital Projects Fund (\$4,047)
Water Revenue Fund – Enterprise Fund (\$10,000)
Sewer Fund – Enterprise Fund (\$16,015)

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Schedule of Findings – (continued)
For the Years Ending December 31, 2010 and 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2010-002 (continued)

Noncompliance Citation (continued)

At December 31, 2009, the following funds' appropriations exceeded total estimated resources:
East Water Street Fund – Capital Projects Fund (\$4,047)
Water Revenue Fund – Enterprise Fund (\$9,850)
Sewer Fund – Enterprise Fund (\$18,215)

Official's Response:

New management is implementing procedures to avoid having appropriations exceed estimated resources in the future.

Finding Number 2010-003

Noncompliance Citation

Ohio Revised Code Section 5705.41 (D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

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 certificate 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 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 ordinance or resolution within 30 days from the receipt of such certificate.

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 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.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Schedule of Findings – (continued)
For the Years Ending December 31, 2010 and 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2010-003 (continued)

Noncompliance Citation (continued)

3. Super Blanket Certificate- The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, any other specific recurring and reasonable 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 review of expenditures (non-payroll), we noted twenty-seven (27) instances out of sixty (60) reviewed or 45% of expenditures tested in which the Village incurred an obligation prior to the Fiscal Officer certifying the availability of funds. More simply, the date of the invoice preceded the date of the purchase order.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer 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 most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

New management will require departments to communicate purchases needed before the purchases are actually made.

Finding Number 2010-004

Non-Compliance Citation

Ohio Rev. Code Section 5705.14, 5705.15, and 5705.16 states that no transfer can be made from one fund of a subdivision to any other fund, except money may be transferred from the general fund to any fund of the subdivision by resolution of the taxing authority or from one fund to another as is specifically authorized in Ohio Rev. Code Section 5705.14.

Transfers and must be specifically approved by a formal resolution or transfer of the taxing authority of the subdivision. The resolution must include:

- A specific statement that the transaction is either a transfer or an advance of cash, and
- The specific funds providing and receiving, and the amounts of the transfer.

The Village made numerous transfers in both years from various funds without approval from the Village Council. The transfers were not in compliance with Ohio Revised Code Sections 5705.14-16 and were reversed in the financial statements and the Village's records.

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
Schedule of Findings – (continued)
For the Years Ending December 31, 2010 and 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2010-004 (continued)

Non-Compliance Citation (continued)

We recommend the Village refer to the Ohio Revised Code Section 5705.14, 5705.15, and 5705.16 prior to making transfers and require Council approval before transferring funds.

Official's Response:

New management will require Council approval before making any transfers in the future.

Finding Number 2010-005

Non-Compliance Citation and Material Weakness

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

During 2009 and 2010, the Village was missing the following documentation or had the following misclassifications or postings:

- Ohio Public Works Commission (OPWC) loan proceeds and corresponding capital outlay were not recorded.
- Income taxes were not allocated to the Capital Projects Fund.
- Transfers out did not equal transfers in.
- The Village was unable to locate the depository agreements.
- The Village was unable to locate collateral statements.
- The Village was unable to locate the listing of outstanding checks for 2009.
- Employee pay rates could not be verified to approvals in the minutes.
- Special assessments for delinquent water and sewer bills were recorded in the wrong fund requiring a prior year adjustment.
- Certain debt service fund activity was recorded in the wrong fund.
- Certain purchase requisitions, purchases orders and invoices could not be located.
- Certain payments were not made timely in relation to the invoice date.

We recommend that the Village retain all relevant documentation for all purchases and receipts. Also, we recommend the Village use more caution when recording transactions and refer to the Village Officers' Handbook to ensure proper fund and account classification. Furthermore, all employee pay rates should be approved by Council. The audit report and the Village's records were adjusted to reflect the proper activity.

Official's Response:

New management has many years of village accounting experience and has converted to the UAN system which should aid in the recording of transactions. Also, all relevant supporting documentation will be retained to ensure accuracy and legitimacy of expenditures.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY, OHIO
For the Years Ending December 31, 2010 and 2009**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	ORC 5705.41 (B) no subdivision shall make any expenditure of money unless it has been appropriated.	No	Not corrected. Reissued as finding 2010-001.
2008-002	ORC 5705.39, total appropriations from each fund not exceed total estimated fund resources.	No	Not corrected. Reissued as finding 2010-002.
2008-003	ORC 5705.41 (D) states that no subdivision shall make any contract or order any expenditure of money unless the Village certifies that the funds are available.	No	Not corrected. Reissued as finding 2010-003.
2008-004	Maintaining an internal control system over purchasing	No	Not corrected. Combined with finding 2010-005.
2008-005	Ohio Administrative Code Section 117-2-02(A) maintaining an accounting system and records	No	Not corrected. Reissued as finding 2010-005.



Dave Yost • Auditor of State

VILLAGE OF ROCK CREEK

ASHTABULA 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
DECEMBER 1, 2011