



Dave Yost • Auditor of State

VILLAGE OF ROCHESTER
LORAIN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Rochester, Lorain County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

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 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 opinion.

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

As described in Note 1B 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, to satisfy requirements.

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

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, 2012 and 2011 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 Rochester, Lorain County as of December 31, 2012 and 2011, 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 1B.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, 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.



Dave Yost
Auditor of State
Columbus, Ohio

February 28, 2014

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 14,382			\$ 14,382
Intergovernmental	12,852	\$ 21,364	\$ 45,637	79,853
Fines, Licenses and Permits	48			48
Earnings on Investments	794	1,573		2,367
	<u>28,076</u>	<u>22,937</u>	<u>45,637</u>	<u>96,650</u>
<i>Total Cash Receipts</i>				
Cash Disbursements				
Current:				
Public Health Services	358			358
Leisure Time Activities	2,893	10,000		12,893
Community Environment	1,019			1,019
Basic Utility Services	401			401
Transportation		25,600		25,600
General Government	18,361			18,361
Capital Outlay			51,845	51,845
	<u>23,032</u>	<u>35,600</u>	<u>51,845</u>	<u>110,477</u>
<i>Total Cash Disbursements</i>				
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>5,044</u>	<u>(12,663)</u>	<u>(6,208)</u>	<u>(13,827)</u>
Other Financing Receipts				
OPWC Loan Proceeds			6,208	6,208
	<u>5,044</u>	<u>(12,663)</u>	<u>(6,208)</u>	<u>(7,619)</u>
<i>Net Change in Fund Cash Balances</i>				
<i>Fund Cash Balances, January 1</i>	<u>152,965</u>	<u>162,572</u>	<u>315,537</u>	
Fund Cash Balances, December 31				
Restricted		149,909		149,909
Unassigned (Deficit)	158,009			158,009
	<u>\$ 158,009</u>	<u>\$ 149,909</u>	<u>\$ 307,918</u>	
<i>Fund Cash Balances, December 31</i>				

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 12,390		\$ 12,390
Intergovernmental	21,660	\$ 11,448	33,108
Earnings on Investments	1,168	204	1,372
<i>Total Cash Receipts</i>	<u>35,218</u>	<u>11,652</u>	<u>46,870</u>
Cash Disbursements			
Current:			
Public Health Services	351		351
Leisure Time Activities	7,265		7,265
Community Environment	3,360		3,360
Basic Utility Services	1,203		1,203
Transportation		12,374	12,374
General Government	25,877		25,877
<i>Total Cash Disbursements</i>	<u>38,056</u>	<u>12,374</u>	<u>50,430</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>(2,838)</u>	<u>(722)</u>	<u>(3,560)</u>
<i>Fund Cash Balances, January 1</i>	<u>155,803</u>	<u>163,294</u>	<u>319,097</u>
Fund Cash Balances, December 31			
Restricted		162,572	162,572
Unassigned	152,965		152,965
<i>Fund Cash Balances, December 31</i>	<u>\$ 152,965</u>	<u>\$ 162,572</u>	<u>\$ 315,537</u>

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, 2012 AND 2011**

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 7 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. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

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 for constructing, maintaining, and repairing state highways within the Village.

Solid Waste Fund – This fund receives grant monies for the purpose of purchasing products made with recycled materials for the Village.

3. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following capital project fund:

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

D. 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.

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 2012 and 2011 budgetary activity appears in Note 3.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

E. 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). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

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

5. Unassigned

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

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

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.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. Equity in Pooled Deposits

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

	2012	2011
Demand deposits	\$ 105,595	\$ 13,931
Certificates of deposit	202,323	200,000
Other time deposits (savings and NOW accounts)		101,606
Total deposits	\$ 307,918	\$ 315,537

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,725	\$28,076	(\$649)
Special Revenue	22,650	22,937	287
Capital Projects	51,845	51,845	
Total	\$103,220	\$102,858	(\$362)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$178,940	\$23,032	\$155,908
Special Revenue	182,473	35,600	146,873
Capital Projects	51,845	51,845	
Total	\$413,258	\$110,477	\$302,781

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$36,476	\$35,218	(\$1,258)
Special Revenue	11,000	11,652	652
Total	\$47,476	\$46,870	(\$606)

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$201,882	\$38,056	\$163,826
Special Revenue	164,740	12,374	152,366
Total	\$366,622	\$50,430	\$316,192

Contrary to Ohio Revised Code Sections 5705.14, the Village illegally transferred \$2,750 from the Solid Waste Management Fund to the General Fund. This was done without the Village Council's approval. We required the monies to be adjusted back to the Solid Waste Management Fund.

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. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
OPWC Loan	\$6,208	0%

The Ohio Public Works Commission (OPWC) loan relates to Griggs Road resurfacing project. The OPWC approved \$6,208 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$259, over 13 years.

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

Year ending December 31:	<u>OPWC Loan</u>
2013	\$259
2014	517
2015	517
2016	517
2017	517
2018-2022	2,587
2023-2025	1,294
Total	<u><u>\$6,208</u></u>

6. 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 2012 and 2011, 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, 2012.

7. 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. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), 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, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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, 2012 and 2011:

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Assets	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$1,000.

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>2012</u>	<u>2011</u>
\$1,625	\$1,115

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.

8. Subsequent Events

The Village received an Ohio Public Works Commission (OPWC) grant to pay for resurfacing of Griggs Road. The final project was completed in October 2013 and cost approximately \$131,909. OPWC's portion was 74% or approximately \$97,613 and the Village's portion was 26% or approximately \$34,296.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

9. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



Dave Yost • Auditor of State

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

Village of Rochester
Lorain County
PO Box 85
Wellington, Ohio 44090

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 Village of Rochester, Lorain County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated February 28, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

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

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 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. We consider findings 2012-001 and 2012-003 described in the accompanying schedule of findings **to** be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-004 and 2012-005 described in the accompanying schedule of findings to be significant deficiencies.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-002 through 2012-005.

Entity's Response to Findings

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.

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.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 28, 2014

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Material Weakness – Recording “On-Behalf-Of” Grants

Auditor of State Bulletin 2000-008 states that when a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be record.

Auditor of State Bulletin 2002-004 states that all local governments participating in Issue 2 Funds (single or multi-project grant) must, for each project awarded, establish a capital projects fund to account for both the Issue 2 monies and local matching funds. It is not necessary to obtain authorization from the Auditor of State to establish the fund(s) because the authority exists under Section 5705.09 of the Ohio Revised Code. The purpose of the fund is to account for the related revenues and expenditures to the extent the local government has received benefit from the project

In 2012, Ohio Public Works Commission expended \$51,845 directly to contractors on behalf of the Village. These monies were not recorded in the Village’s financial statements.

Failure to record the “on-behalf-of” grants resulted in inaccurate financial statements in 2012.

Management adjusted the accompanying financial statements and budgetary activity to reflect these amounts in the Capital Project Fund.

We recommend the Village record “on-behalf-of” grants received from state or federal grants as a memo receipt and memo expenditure in the Village’s accounting system in an appropriate fund. In addition, Village management should review Auditor of State Bulletins 2000-008 and 2002-004.

Official’s Response:

The Clerk that made the mistakes has removed herself from the position as Clerk. The new Clerk is aware of the correct way to notate the above mentioned grants. She is also attending training to make sure she is aware of the present requirements of noting information on financial statements.

FINDING NUMBER 2012-002

Noncompliance – Prior Certification

Ohio Revised Code Section 5705.41(D), provides that no subdivision or taxing authority shall make any contract or give any order involving the expenditure of money unless there is attached a certificate of the fiscal officer certifying the amount required for the order or contract 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.

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

VILLAGE OF ROCHESTER
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

FINDING NUMBER 2012-002 (Continued)

Noncompliance – Prior Certification (Continued)

“Then and Now” Certificate – If the fiscal officer can certify that both at the time the contract or order was made (“then”), and at the time the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. Council has 30 days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts 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 the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

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.

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, and any other specific recurring and reasonably predictable operating expense. This certification is not extended beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Six of twenty three invoices (26%) tested were obligated prior to receiving the Clerk-Treasurer’s certification. Although purchase orders were certified by the Clerk-Treasurer after the fact, invoices received before a purchase order is prepared precludes the Clerk-Treasurer from certifying funds are available before the expenditure is made.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend the Clerk-Treasurer certify 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 following the aforementioned guidelines.

We recommend the Village certify expenditures to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.10(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied.

Officials Response:

The new Clerk shall certify that funds are available prior to the Village being obligated, if possible. The “then and now” procedure shall only be used in situations where prior certification is not available.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDING NUMBER 2012-003

Material Weakness/Noncompliance - Transfers

Ohio Revised Code Section 5705.14 states no transfer can be made from one fund of a subdivision to any other fund, except as follows:

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable.
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located.
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund.
- Money may be transferred from the general fund to any other fund of the subdivision.

Except in the case of transfer from the general fund, transfers authorized by this section shall only be made by resolution of the taxing authority passed with the affirmative vote of two-thirds of the members.

In fiscal year 2011 the Village transferred the unexpended balance of \$2,750 from the Solid Waste Management Fund to the General Fund. There is no evidence of the required Council approval. Further, this grant money has a restricted purpose and if the Village has an unexpended portion, it may be obligated to return those funds to the granting agency.

Based on the aforementioned the General Fund should return the \$2,750 illegal transfers to the Solid Waste Management Fund. The Village agreed to and posted this adjustment which is also reflected in the financial statements.

We recommend the Village Council approve all transfers before they are made as required by the Ohio Revised Code Section 5705.14. We also recommend the Village contact the grantor that awarded the monies to the Village and determine the appropriate disposition of the unexpended balance.

Official's Response:

In the future, the Clerk will request permission prior to transferring funds. Solid Waste will be contacted to make sure the money is appropriately disposed.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDING NUMBER 2012-004

Significant Deficiency/Noncompliance – Allocation of State Highway Receipts

Ohio Revised Code Section 5705.10 states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

During our testing of intergovernmental gasoline excise tax, state and local government highway tax, motor vehicle registration tax and municipal vehicle registration permissive tax, we noted that receipts were not properly allocated between the Street Construction Maintenance and Repair and State Highway Funds. Revenues from these sources should be posted 92.5% to the Street Construction Maintenance and Repair (SCMR) Fund and 7.5% to the State Highway Fund in accordance Ohio Revised Code Section 5735.28.

This resulted in the overstatement of revenues in the SCMR Fund and understatement of revenues in the State Highway Fund in each year as follows:

<u>Year</u>	<u>SCMR</u>	<u>State Highway</u>
2011	\$(718)	\$ 718
2012	(697)	697
Total	<u>\$(1,415)</u>	<u>\$1,415</u>

Failure to properly allocate revenues could allow for the expenditure of monies for unallowable purposes.

Based on the aforementioned the SCMR and State Highway Fund balances should be adjusted to properly allocate these revenues as required by the Ohio Revised Code Section. The Village agreed to and posted these adjustments which are also reflected in the financial statements.

We recommend the Village establish procedures to ensure that receipts are allocate to the proper fund and accounts.

Official's Response:

The Village Council will review allocation of State Highway funds and do a better job inquiring as to assure that the proper fund and accounts are being used.

FINDING NUMBER 2012-005

Significant Deficiency/Noncompliance – Condition of Accounting Records

Ohio Revised Code 733.28 states that the village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all the property owned by the village and the income derived therefrom, and of all taxes and assessments.

Management is responsible for developing and maintaining complete and accurate financial records. During testing we noted the following:

- The Village did not issue W-2's to employees who grossed \$600 or more in 2012,
- The Village did not file or pay its 944 payments in 2012,
- The Village did not prepare bank reconciliations from March 2012 through November 2012,

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDING NUMBER 2012-005 (Continued)

Significant Deficiency/Noncompliance – Condition of Accounting Records (Continued)

- The Village's year end bank balances did not agree to UAN system for 2011 and 2012,
- The Village's year end bank reconciliation for 2012 included an unsupported reconciling item totaling \$530,
- The Villages General Fund beginning balance in 2011 differed by \$250 from the prior audited ending balance, and
- The Village could not locate minutes for two meetings held in July 2012.

Failure to implement and maintain a system of controls over the Village's financial records increases the likelihood that errors or irregularities could occur which would not be detected by management in a timely manner.

Therefore we recommend the Village establish policies and procedures to ensure that appropriate payroll forms are prepared and filed. Management should contact the appropriate jurisdiction to ensure all required payroll withholdings have been remitted. Bank reconciliations should be performed monthly and balanced to the Village's accounting system. All reconciling items should be supported and maintained on file. Further it is critical that all Council meeting minutes are promptly recorded, approved and retained on site to avoid being lost or destroyed.

Official's Response:

Rochester Village had a new Clerk in 2011 and a different one in 2012. The present Clerk came on Board in 2013 and has worked on resolving many of the past issues. The new Clerk has contacted the State regarding the 2012 944 payments. She has also begun bank reconciliations that are presented at the Council meetings for review.

The new Clerk has also worked to resolve the disparities regarding banking and has attempted and will continue to bank correctly. Due to this audit the Village Council and Mayor are inspecting bank records to assure that funds are correct, minutes are completed and have been more educated on what questions to ask regarding the banking. The new Clerk is attending training shortly that will educate her as to the correct accounting procedure.

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**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Financial Reporting: Numerous adjustments and reclassifications were made to the financial statements.	No	Reissued in part as Finding 2012-003, 2012-004 and 2012-005
2010-02	Budgeting for OPWC Receipts and Expenditures: Village did not record vendor payments or corresponding receipts made by OPWC on behalf of the Village	No	Reissued as Finding 2012-001

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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
MARCH 13, 2014