



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 of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Rochester, Lorain County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013.

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 (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position 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 the Village of Rochester, Lorain County, Ohio as of December 31, 2014 and 2013, 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 December 18, 2015, 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.

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

December 18, 2015

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**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, 2014**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$10,436	\$1,541		\$11,977
Intergovernmental	12,751	8,608	\$148,325	169,684
Earnings on Investments	387	955		1,342
Miscellaneous	538			538
<i>Total Cash Receipts</i>	<u>24,112</u>	<u>11,104</u>	<u>148,325</u>	<u>183,541</u>
Cash Disbursements				
Current:				
Leisure Time Activities	3,643			3,643
Community Environment	1,837			1,837
Transportation		8,300	148,325	156,625
General Government	23,752			23,752
Debt Service:				
Principal Retirement	517			517
<i>Total Cash Disbursements</i>	<u>29,749</u>	<u>8,300</u>	<u>148,325</u>	<u>186,374</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(5,637)</u>	<u>2,804</u>		<u>(2,833)</u>
Other Financing Receipts (Disbursements)				
Transfers In		38,861		38,861
Transfers Out	(38,861)			(38,861)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(38,861)</u>	<u>38,861</u>		
<i>Net Change in Fund Cash Balances</i>	<u>(44,498)</u>	<u>41,665</u>		<u>(2,833)</u>
<i>Fund Cash Balances, January 1</i>	<u>127,776</u>	<u>143,001</u>		<u>270,777</u>
Fund Cash Balances, December 31				
Restricted		184,666		184,666
Unassigned (Deficit)	83,278			83,278
<i>Fund Cash Balances, December 31</i>	<u><u>\$83,278</u></u>	<u><u>\$184,666</u></u>		<u><u>\$267,944</u></u>

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, 2013**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$10,334	\$1,855		\$12,189
Intergovernmental	14,938	9,289	\$97,613	121,840
Fines, Licenses and Permits	90			90
Earnings on Investments	577	1,575		2,152
<i>Total Cash Receipts</i>	<u>25,939</u>	<u>12,719</u>	<u>97,613</u>	<u>136,271</u>
Cash Disbursements				
Current:				
Leisure Time Activities	3,089			3,089
Community Environment	1,127			1,127
Basic Utility Services	2,839			2,839
Transportation		19,627	97,613	117,240
General Government	48,600			48,600
Debt Service:				
Principal Retirement	517			517
<i>Total Cash Disbursements</i>	<u>56,172</u>	<u>19,627</u>	<u>97,613</u>	<u>173,412</u>
<i>Net Change in Fund Cash Balances</i>	(30,233)	(6,908)		(37,141)
<i>Fund Cash Balances, January 1</i>	<u>158,009</u>	<u>149,909</u>		<u>307,918</u>
Fund Cash Balances, December 31				
Restricted		143,001		143,001
Unassigned (Deficit)	127,776			127,776
<i>Fund Cash Balances, December 31</i>	<u>\$127,776</u>	<u>\$143,001</u>		<u>\$270,777</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, 2014 AND 2013**

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. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

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

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

C. Fund Accounting

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

1. General Fund

The General Fund 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, 2014 AND 2013
(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 material 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. 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 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 2014 and 2013 budgetary activity appears in Note 3.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(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, 2014 AND 2013
(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:

	2014	2013
Demand deposits	\$139,850	\$66,303
Certificates of deposit	128,094	204,474
Total deposits	\$267,944	\$270,777

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,440	\$24,112	(\$328)
Special Revenue	49,965	49,965	0
Capital Projects	148,325	148,325	0
Total	\$222,730	\$222,402	(\$328)

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$132,711	\$68,610	\$64,101
Special Revenue	136,000	8,300	127,700
Capital Projects	148,325	148,325	0
Total	\$417,036	\$225,235	\$191,801

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,559	\$25,939	\$1,380
Special Revenue	12,725	12,719	(6)
Capital Projects	97,613	97,613	0
Total	\$134,897	\$136,271	\$1,374

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$174,350	\$56,172	\$118,178
Special Revenue	149,642	19,627	130,015
Capital Projects	97,613	97,613	0
Total	\$421,605	\$173,412	\$248,193

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.

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, 2014 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$5,173	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 12 years

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

Year ending December 31:	OPWC Loan
2015	\$517
2016	517
2017	517
2018	517
2019	517
2020-2024	2,588
Total	\$5,173

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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 plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, 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, 2014.

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2014, PEP retained \$350,000 for casualty claims and \$100,000 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 net position at December 31, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	<u>(12,760,194)</u>	<u>(12,363,257)</u>
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, 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>2013</u>	<u>2014</u>
\$1,663	\$1,664

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. 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.

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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
P.O. 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 cash balances, receipts, and disbursements by fund type of the Village of Rochester, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated December 18, 2015 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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 a material weakness and a significant deficiency.

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 finding 2014-002 described in the accompanying schedule of findings to be a material weakness.

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 finding 2014-003 described in the accompanying schedule of findings to be a significant deficiency.

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 2014-001, 2014-003 and 2014-004.

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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

December 18, 2015

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-001

Finding for Recovery – Repaid Under Audit

AOS Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states the requirements necessary to ensure that an entity's expenditure of public funds is for a proper public purpose. Ohio Attorney General Opinion 82-006, citing State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if incidental private end is advanced. The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "...must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only."

On January 7, 2008 Council authorized an increase in the salary of the Clerk-Treasurer by \$300 to \$3,300. On January 3, 2011 Council authorized a 10% increase for the Clerk-Treasurer effective January 2012. This recalculates to \$3,360 or \$302.50 each month.

Darlene Loney-Eaton, Clerk-Treasurer was hired in June 2013. The Clerk-Treasurer was paid twice for her November 2013 salary resulting in an overpayment of \$292. The warrant date, amount, number and memo description of these payments are as follows:

<u>Date</u>	<u>Net Pay</u>	<u>Number</u>	<u>Description</u>
10/21/2013	292.05	2375	November Salary
11/20/2013	292.05	2377	November Pay

Further the employee share of the Ohio Public Employment Retirement System was not withheld from the new Clerk-Treasurers' salary payments in 2013 and 2014. The Village paid the employee share which resulted in an increase in salary for the Clerk-Treasurer. There was no Council authorization of this salary increase. There were eight salary payments in 2013 and twelve salary payments in 2014. This resulted in an overpayment of \$605.

<u>Monthly Salary</u>	<u>OPERS Employee Rate</u>	<u>Number of Payments</u>	<u>Overpayment</u>
\$ 302.50	10%	8	\$ 242
302.50	10%	12	363
			<u>\$ 605</u>

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Darlene Loney-Eaton, Clerk-Treasurer in the amount of \$897 and in favor of the Village of Rochester's' General Fund.

On November 26, 2015, the Clerk-Treasurer repaid \$897 to the Village. This payment was deposited on November 27, 2015 and recorded as receipt number 69-2015 and credited to the Village's General Fund.

FINDING NUMBER 2014-001 (Continued)

Finding for Recovery – Repaid Under Audit (Continued)

Officials' Response:

I am not sure the reason for the issue but I am glad it was resolved and that Darlene repaid the Village the expended funds.

FINDING NUMBER 2014-002

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 2013, Ohio Public Works Commission expended \$97,613 directly to contractors on behalf of the Village. These monies were not recorded in the Village's financial statements.

In 2014, Ohio Public Works Commission expended \$148,325 directly to contractors on behalf of the Village. These monies were recorded in the Village's financial statements, but they were incorrectly posted to a Special Revenue Fund instead of a Capital Projects Fund.

Failure to properly record the “on-behalf-of” grants resulted in inaccurate financial statements in 2013 and 2014.

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.

Officials' Response:

The Village made the appropriate adjustments and will in the future record correctly.

FINDING NUMBER 2014-003

Noncompliance and Significant Deficiency - Allocation of State Highway Receipts

Ohio Rev. Code § 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.

Intergovernmental gasoline excise tax, state and local government highway tax, motor vehicle registration tax and municipal vehicle registration permissive tax 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:

Year	SCMR	State Highway
2013	\$ (468)	\$468
2014	(443)	443
Total	\$ (911)	\$ 911

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 receipts are allocate to the proper fund and accounts.

Official's Response:

The Village will correct the deficiency and allocate correctly in the future.

FINDING NUMBER 2014-004

Noncompliance – Condition of Accounting Records

Ohio Rev. Code §733.28 states 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. We noted the following:

- The Village did not issue W-2's to employees who grossed \$600 or more in 2013 and 2014.
- The Village did not file or pay its 944 payments in 2013 and 2014.
- The Village could not locate minutes for two meetings held in September and December of 2013, and one held in September of 2014.

FINDING NUMBER 2014-004 (Continued)

Noncompliance – Condition of Accounting Records (Continued)

- The Village did not receive a Gasoline Excise Tax payment dated October 24, 2014 for \$373.89. The Ohio Department of Taxation (ODOT) withheld this payment (and certain payments in 2015) because the Village had not completed the necessary forms to receive payments electronically, which is mandatory.

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 to strengthen internal control and accountability we recommend the following:

- Management should establish policies and procedures to ensure appropriate payroll forms are prepared and filed.
- Management should contact the appropriate jurisdiction to ensure all required payroll withholdings have been remitted.
- Council meeting minutes should be promptly recorded, approved and retained on site to avoid being lost or destroyed.
- The Clerk-Treasurer should maintain documentation that all payments that were withheld by the ODOT are investigated, resolved and received.

Officials' Response:

I will be sure to inquire as to W-2s and 944 payments. The minutes are always discussed and approved. I am not sure as to why they are not found. There is no location onsite to save the minutes since the building is not owned by the Village but by the Township but will assure that minutes are documented.

I will not be in the Mayor beginning 1/1/2016 but will relay this to the new Mayor to assure that she is aware of past issues so as to not have them in 2016 and the future.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Recording "On-Behalf-Of" Grants – The Village did not record OPWC on behalf payments in the financial statements.	No	Reissued as Finding 2014-002
2012-002	Prior Certification – The Village obligated six of twenty three invoices prior to the Clerk-Treasurer certification.	No	Reissued as a management letter citation
2012-003	Transfers – Council did not approve a transfer from the Solid Waste Management Fund to the General Fund.	Yes	
2012-004	Allocation of State Highway Receipts – Receipts were not properly allocated between the Street Construction Maintenance and Repair and State Highway Funds.	No	Reissued as Finding 2014-003
2012-005	Condition of Accounting Records – The Village did not issue W-2's to employees who grossed \$600 or more in 2012, did not file or pay its 944 payments in 2012, did not prepare bank reconciliations from March 2012 through November 2012. The year-end bank balances did not agree to UAN system for 2011 and 2012 and the 2012 year end bank reconciliation included an unsupported reconciling item totaling \$530. The 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.	No	Partially corrected, reissued as Finding 2014-004

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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
DECEMBER 31, 2015