



Dave Yost • Auditor of State

VILLAGE OF ROCHESTER
LORAIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2016	5
Notes to the Financial Statements For the Year Ended December 31, 2016.....	7
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2015	15
Notes to the Financial Statements For the Year Ended December 31, 2015	17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	25
Schedule of Findings	27
Summary Schedule of Prior Audit Findings	33

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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, 2016 and 2015.

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 adverse and qualified audit opinions.

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

As described in Note 2 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 Qualification 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, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Basis for Opinion Qualification

The Village reported the CSX Fund Balance at December 31, 2016 and December 31, 2015 as \$129,671 and \$129,185, respectively; which is 70% and 73% of total special revenue fund balance, respectively. Without the resolution or ordinance establishing this fund or the settlement agreement it is not possible to determine whether the CSX Fund should be presented as a special revenue fund or whether the restricted fund balance classification is appropriate. Consequently, it could not be determined if the financial statements were accurately stated.

Opinion Qualification on Regulatory Basis of Accounting

In our opinion, except the possible effects of the matter described based in the *Basis for Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Rochester, Lorain County as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, 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

November 9, 2017

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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, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Taxes	\$ 13,519	\$ 2,041	\$ 15,560
Intergovernmental	16,309	9,814	26,123
Fines, Licenses and Permits	1,040	-	1,040
Earnings on Investments	-	486	486
Miscellaneous	49	50	99
	<hr/>	<hr/>	<hr/>
<i>Total Cash Receipts</i>	30,917	12,391	43,308
	<hr/>	<hr/>	<hr/>
Cash Disbursements			
Current:			
Security of Persons & Property	3,241	-	3,241
Leisure Time Activities	1,680	-	1,680
Community Environment	3,640	-	3,640
Transportation	-	3,520	3,520
General Government	16,129	-	16,129
Debt Service:			
Principal Retirement	617	-	617
	<hr/>	<hr/>	<hr/>
<i>Total Cash Disbursements</i>	25,307	3,520	28,827
	<hr/>	<hr/>	<hr/>
<i>Excess of Receipts Over (Under) Disbursements</i>	5,610	8,871	14,481
	<hr/>	<hr/>	<hr/>
<i>Net Change in Fund Cash Balances</i>	5,610	8,871	14,481
	<hr/>	<hr/>	<hr/>
<i>Fund Cash Balances, January 1</i>	74,080	179,228	253,308
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31			
Restricted	-	188,099	188,099
Assigned	20,342	-	20,342
Unassigned (Deficit)	59,348	-	59,348
	<hr/>	<hr/>	<hr/>
<i>Fund Cash Balances, December 31</i>	79,690	188,099	267,789
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The notes to the financial statements are an integral part of this statement

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Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Rochester (the Village), Lorain County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides general government services, including park operations, and police services. 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.

Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools and Related Organizations

The Village participates in a public entity risk pool (PEP), and 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 6 to the financial statements provide additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund - The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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:

Street Construction Maintenance and Repair - The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

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

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Solid Waste Fund – This fund receives grant monies for the purpose of purchasing products made with recycled material for the village

CSX Fund - This fund received a significant one-time settlement payout in 2000.

Basis of Accounting

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.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

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.

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.

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2016 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Capital Assets

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

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:

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

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.

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.

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.

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.

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$29,430	\$30,917	\$1,487
Special Revenue	29,500	12,391	(17,109)
Total	\$58,930	\$43,308	(\$15,622)

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$75,283	\$25,307	\$49,976
Special Revenue	100,000	3,520	96,480
Total	\$175,283	\$28,827	\$146,456

Ohio Rev. Code §5705.38 (C) requires that appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. The Village appropriated at the fund-type level in 2016 contrary to the legal level of control prescribed by law.

Note 4 – Deposits and Investments

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

	2016
Demand deposits	\$138,247
Certificates of deposit	129,542
Total deposits	\$267,789

Deposits

Deposits are insured by the Federal Depository Insurance Corporation.

Note 5 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Note 6 - Risk Management

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. 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 York. 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, 2016, 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 auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Government'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>2016 Contributions to PEP</u>
<u>\$1,811</u>

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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some (three) 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.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$4,039	0%

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Amortization

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

Year ending December 31:	<u>OPWC Loan</u>
2017	517
2018	517
2019	517
2020	517
2021-2025	<u>1,969</u>
Total	<u><u>\$4,039</u></u>

Note 10 – 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.

Note 11 – Fund Balances

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Township is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the Townships funds are presented below:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total Funds</u>
Restricted for:			
Community Development		\$129,721	\$129,721
Road Maintenance and Improvements		58,378	58,378
Assigned for:			
Subsequent Year Appropriations	\$20,342	-	20,342
Unassigned:	<u>59,348</u>	<u>-</u>	<u>59,348</u>
Total Fund Balances	<u>\$79,690</u>	<u>\$188,099</u>	<u>\$267,789</u>

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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, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Taxes	\$ 11,917	\$ 2,109	\$ 14,026
Intergovernmental	14,455	9,439	23,894
Earnings on Investments	-	962	962
Miscellaneous	962	-	962
<i>Total Cash Receipts</i>	<u>27,334</u>	<u>12,510</u>	<u>39,844</u>
Cash Disbursements			
Current:			
Security of Persons & Property	3,300	-	3,300
Community Environment	3,499	-	3,499
Transportation	8,510	17,948	26,458
General Government	20,706	-	20,706
Debt Service:			
Principal Retirement	517	-	517
<i>Total Cash Disbursements</i>	<u>36,532</u>	<u>17,948</u>	<u>54,480</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(9,198)</u>	<u>(5,438)</u>	<u>(14,636)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(9,198)</u>	<u>(5,438)</u>	<u>(14,636)</u>
<i>Fund Cash Balances, January 1</i>	<u>83,278</u>	<u>184,666</u>	<u>267,944</u>
Fund Cash Balances, December 31			
Restricted	-	179,228	179,228
Assigned	45,853	-	45,853
Unassigned (Deficit)	28,227	-	28,227
<i>Fund Cash Balances, December 31</i>	<u>74,080</u>	<u>179,228</u>	<u>253,308</u>

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

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Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Solid Waste Fund – This fund receives grant monies for the purpose of purchasing products made with recycled material for the village

CSX Fund - This fund received a significant one-time settlement payout in 2000.

Basis of Accounting

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.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

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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.

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2015 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Capital Assets

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

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:

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

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.

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.

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.

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.

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,691	\$27,334	\$643
Special Revenue	12,800	12,510	(290)
Total	\$39,491	\$39,844	\$353

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$60,350	\$36,532	\$23,818
Special Revenue	30,000	17,948	12,052
Total	\$90,350	\$54,480	\$35,870

Ohio Rev. Code §5705.38 (C) requires that appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. The Village appropriated at the fund-type level in 2015 contrary to the legal level of control prescribed by law.

Note 4 – Deposits and Investments

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

Demand deposits	2015 \$124,252
Certificates of deposit	129,056
Total deposits	\$253,308

Deposits

Deposits are insured by the Federal Depository Insurance Corporation.

Note 5 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

Note 6 - Risk Management

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. 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 York. 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, 2015, 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 auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015.

	<u>2015</u>
Assets	\$38,307,677
Liabilities	<u>(12,759,127)</u>
Net Position	<u>\$25,548,550</u>

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

At December 31, 2015 the liabilities above include approximately 11.5 million of estimated incurred claims payable. The assets above also include approximately \$11 million of unpaid claims to be billed. The Pool's membership increased to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Government'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.

2015 Contributions to PEP
<u>\$1,668</u>

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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some (three) 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.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$4,656	0%

Village of Rochester, Ohio
Lorain County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Amortization

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

Year ending December 31:	<u>OPWC Loan</u>
2016	517
2017	517
2018	517
2019	517
2020	517
2021-2025	<u>2,069</u>
Total	<u><u>\$4,656</u></u>

Note 10 – 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.

Note 11 – Fund Balances

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Township is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the Townships funds are presented below:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total Funds</u>
Restricted for:			
Community Development		\$129,185	\$129,185
Road Maintenance and Improvements		50,043	50,043
Assigned for:			
Subsequent Year Appropriations	\$45,843	-	45,843
Unassigned:	<u>28,227</u>	<u>-</u>	<u>28,227</u>
Total Fund Balances	<u>\$74,080</u>	<u>\$179,228</u>	<u>\$253,080</u>

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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
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, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated November 9, 2017 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. We qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the recording of the CSX Fund as a Special Revenue Fund and its fund balance classifications

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 through 2016-004 to be material weaknesses.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-003 and 2016-004.

Village'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.



Dave Yost
Auditor of State
Columbus, Ohio

November 9, 2017

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness – CSX Fund Original Documentation

Governmental Accounting Standards Board Statement No. 54 paragraph 30 defines special revenue funds as funds to be used to 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. Paragraph 31 states the restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

According to the Village, the CSX Fund was established in fiscal year 2000 based upon receipt of a one-time settlement payment regarding train wayside noise. The Village has classified this fund as a special revenue fund; however, they have been unable to locate a resolution establishing this fund or records to support the original settlement agreement.

Without the resolution or ordinance establishing this fund or the settlement agreement it is not possible to determine whether the CSX Fund should be presented as a special revenue fund or whether the restricted fund balance classification is appropriate. The CSX Fund Balance at December 31, 2016 and December 31, 2015 is \$129,671 and \$129,185, respectively; which is 70% and 73% of total special revenue fund balance, respectively. As a result, it could not be determined if the financial statements were accurately stated.

We recommend the Village research the CSX Fund and secure documentation supporting its establishment (i.e. resolution or ordinance) and the original settlement and any constraints imposed to appropriately make disbursements from the special revenue fund and to classify the fund balance. If research has been exhausted and no original documentation located, the Village should then consult with its statutory legal counsel on how to resolve this matter. Evidence of this research and consultation with its statutory legal counsel should be retained on file.

Official's Response: We understand and will be working to correct them.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

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

FINDING NUMBER 2016-002

Material Weakness – Financial Reporting

Management is responsible for implementing and maintaining an internal control system designed to enable management to determine the completeness, accuracy and proper classification of the Village's financial statement transactions and balances.

The following weaknesses were noted and subsequent adjustments made by the Village to their financial statements and, where applicable, accounting system for 2015:

- Property tax receipts were overstated and intergovernmental receipts were understated by \$3,237 in the General Fund due to the incorrect allocation of house bill 64, local government, solid waste grant and homestead and rollback receipts.
- Transportation expense was overstated by \$1,000 in the Street Construction, Maintenance and Repair Fund. The Village erroneously recorded a homecoming committee expense in the Street Construction, Maintenance and Repair Fund when it should have been recorded in the General Fund.
- Subsequent year appropriations exceeded estimated receipts by \$45,853 in the General Fund. The Village did not classify the net amount to the assigned fund balance, thus overstating the unrestricted fund balance and understating assigned fund balance.

The following weaknesses were noted and subsequent adjustments made by the Village to their financial statements and, where applicable, accounting system for 2016:

- Property tax receipts were overstated and intergovernmental receipts were understated by \$5,269 in the General Fund due to the incorrect allocation of house bill 64, local government, and homestead and rollback receipts.
- Intergovernmental revenue was understated by \$500 in the Solid Waste Management Fund due to an incorrect allocation of receipts in the General Fund.
- Subsequent year appropriations exceeded estimated receipts by \$20,342 in the General Fund. The Village did not classify the net amount to the assigned fund balance, thus overstating the unrestricted fund balance and understating assigned fund balance.

The financial statements were adjusted by management to correct these errors. In addition to the adjustments listed above, we also identified additional misstatements ranging from \$17 to \$1,000 that we have brought to the Village's attention.

The Fiscal Officer was unaware of the errors in her postings and thought her classifications were accurate in the accounting system until she was notified otherwise.

The Village should exercise due care when posting transactions to ensure the transactions are correct and posted to the proper funds and accounts, to avoid financial statement misstatements and allow for accurate reporting.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2016-002
(Continued)**

Material Weakness – Financial Reporting (Continued)

We recommend the Village contact the appropriate source for guidance if they have any uncertainty when classifying receipts and fund balance. The Village should refer to *Auditor of State Bulletin 2011-004 Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions* and the Village Officer's Handbook located on the Auditor of State's website. The Village should evaluate its methods for posting financial transactions to help ensure the amounts are properly recorded on the Village's financial statements.

Official's Response: I understand and will be working to correct it.

FINDING NUMBER 2016-003

Noncompliance Finding and Material Weakness – Proper Use of Purchase Orders

Ohio Rev. Code § 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 encumbrances.

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.

"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.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2016-003
(Continued)**

Noncompliance Finding and Material Weakness – Proper Use of Purchase Orders (Continued)

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.

Furthermore, the Village utilizes regular purchase orders, in part to comply with Ohio Revised Code Section 5705.41(D). In lieu of regular purchase orders, blanket certificates are often utilized as an exception to the requirement 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. There are restrictions on the use of such blanket certificates, as noted above.

The following compliance errors related to purchase orders were identified:

- The Village did not issue purchase orders prior to incurring expenses for two out of fourteen (14%) transactions in 2015 and for one out of ten (10%) transactions in 2016.
- The Village has not established through an ordinance or resolution an amount blanket certificates are not to exceed.
- In 2015, fourteen of fourteen (100%) transactions tested were not signed or certified by the Fiscal Officer. In 2016, ten of ten (100%) transactions tested were not signed or certified by the Fiscal Officer.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2016-003
(Continued)**

Noncompliance Finding and Material Weakness – Proper Use of Purchase Orders (Continued)

The Village incorrectly used and implemented regular and blanket purchase orders, which diminishes the effectiveness of these forms. Failure to properly use purchase orders can cause deficit spending, budgetary violations, and inaccurate financial reporting.

The Village Fiscal Officer indicated that she had a general understanding of the use and purpose of purchase orders but did not have a complete grasp of the various types of purchase orders, their intended use, the proper approval process or what a Then and Now Certificate was. She also stated that it was an oversight on her part for not signing the purchase orders.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify the funds are or will be available prior to contract or order for expenditure by the Village. We also recommend the Fiscal Officer ensure the Village Council establishes an amount blank certificates are not to exceed through an ordinance or resolution. When prior certification is not possible, "then and now" certification should be used following the aforementioned guidelines.

Official's Response: We understand and are currently working to correct it.

FINDING NUMBER 2016-004

Noncompliance Finding and Material Weakness – Legal Level of Control

Legal Level of Control

Ohio Rev. Code §5705.38 (C) requires that appropriation measures be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

The Village appropriated at the fund-type level in 2016 and 2015, which does not meet the legal level of control prescribed above. When completing the appropriation measures, management followed the same procedures the Village has done in prior fiscal years. The Village management is unfamiliar with many budgetary requirements and management is working to develop an understanding of such.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2016-004
(Continued)**

Noncompliance Finding and Material Weakness – Legal Level of Control (Continued)

Legal Level of Control (Continued)

Failure to adopt the permanent appropriation measure at the minimum legal level of control diminishes management's ability to monitor the Village's budgetary versus actual performance data.

We recommend management ensure the permanent appropriation measure is approved by the required deadline and at the minimum legal level of control.

Official's Response: We understand and are currently correcting.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Finding For Recovery Repaid Under Audit – In 2013, the Clerk-Treasurer was overpaid in salary and also received an overpayment when the employee share of OPERS was not withheld from the Clerk-Treasurer's salary. The Village paid the employee's share.	Fully Corrected	None
2014-002	Recording "On Behalf-of" Grants – The Village did not record OPWC on behalf-of payments in the financial statements.	Finding Not Valid	None
2014-003	Allocation of State Highway Receipts – Receipts were not properly allocated between the Street Construction Maintenance and Repair and State Highway Funds.	Fully Corrected	None
2014-004	Condition of Accounting Records - The Village did not issue W-2's to employees who grossed \$600 or more in 2014 and 2013, did not file or pay its 944 payments in 2014 and 2013, could not locate minutes 1 meeting in 2014 and for 2 meetings in 2013, and did not receive a Gasoline Excise Tax payment in 2014 as the payment was withheld by the Ohio Department of Taxation due to the Village's failure to complete necessary forms.	Finding Partially Corrected, Reissued as Management Letter Comment	The 944 forms were not filed for fiscal year 2015 or 2016, plus additional weaknesses

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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
NOVEMBER 28, 2017