



**VILLAGE OF ROCHESTER
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 & 2003 & 2002



**Auditor of State
Betty Montgomery**

VILLAGE OF ROCHESTER
LORAIN COUNTY

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**Auditor of State
Betty Montgomery**

Village Council
Village of Rochester
Lorain County
52185 Griggs Road
Wellington, Ohio 44090

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 25, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village Council
Village of Rochester
Lorain County
52185 Griggs Road
Wellington, Ohio 44090

We were engaged to audit the accompanying financial statements of the Village of Rochester, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Village's management.

We have audited the accompanying financial statements of the Village of Rochester, Lorain County, Ohio, (the Village) as of and for the year ended December 31, 2004. These financial statements are also the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003 and 2002), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the fourth following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Rochester as of December 31, 2004, or its changes in financial position for the year then ended.

The Village did not provide us with documentation, including, but not limited to, vouchers, vendor invoices, canceled checks, certain bank statements, W-2's, and/or withholding statements to support the cash disbursements for the period January 1, 2002 through December 31, 2003. By failing to retain this documentation, we could not determine the validity of the cash disbursements made by the Village.

Since the Village did not provide the evidence described in the preceding paragraph, the scope of our work was not sufficient for us to express an opinion, and we do not express an opinion on the financial statements for the years ended December 31, 2003 and December 31, 2002.

In our opinion, the financial statements referred to in the third preceding paragraph present fairly, in all material respects, the combined fund cash balances of the Village of Rochester, Lorain County, as of December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

October 25, 2005

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$8,774	\$0	\$8,774
Intergovernmental Receipts	18,225	6,858	25,083
Charges for Services	1,310	0	1,310
Fines, Licenses, and Permits	150	0	150
Earnings on Investments	2,310	0	2,310
Miscellaneous	335	0	335
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	31,104	6,858	37,962
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	3,277	0	3,277
Leisure Time Activities	683	0	683
Community Environment	5,267	0	5,267
Transportation	0	11,348	11,348
General Government	15,354	0	15,354
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	24,581	11,348	35,929
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	6,523	(4,490)	2,033
	<hr/>	<hr/>	<hr/>
Other Financing Receipts and (Disbursements):			
Other Financing Disbursements	(4)	0	(4)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(4)	0	(4)
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	6,519	(4,490)	2,029
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1, 2004	46,908	177,354	224,262
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31, 2004	<u>\$53,427</u>	<u>\$172,864</u>	<u>\$226,291</u>

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$8,130	\$0	\$0	\$8,130
Intergovernmental Receipts	18,951	5,995	17,045	41,991
Charges for Services	520	0	0	520
Fines, Licenses, and Permits	235	0	0	235
Earnings on Investments	6,311	72	0	6,383
Miscellaneous	656	0	0	656
	<u>34,803</u>	<u>6,067</u>	<u>17,045</u>	<u>57,915</u>
Total Cash Receipts				
	<u>34,803</u>	<u>6,067</u>	<u>17,045</u>	<u>57,915</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	3,172	0	0	3,172
Leisure Time Activities	7,715	0	0	7,715
Community Environment	8,082	51,834	0	59,916
Basic Utility Services	2,035	0	0	2,035
Transportation	0	5,055	0	5,055
General Government	21,786	0	0	21,786
Capital Outlay	0	0	17,045	17,045
	<u>42,790</u>	<u>56,889</u>	<u>17,045</u>	<u>116,724</u>
Total Cash Disbursements				
	<u>42,790</u>	<u>56,889</u>	<u>17,045</u>	<u>116,724</u>
Total Receipts Over/(Under) Disbursements	<u>(7,987)</u>	<u>(50,822)</u>	<u>0</u>	<u>(58,809)</u>
Other Financing Receipts and (Disbursements):				
Other Financing Disbursements	0	(2,048)	0	(2,048)
	<u>0</u>	<u>(2,048)</u>	<u>0</u>	<u>(2,048)</u>
Total Other Financing Receipts/(Disbursements)				
	<u>0</u>	<u>(2,048)</u>	<u>0</u>	<u>(2,048)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(7,987)</u>	<u>(52,870)</u>	<u>0</u>	<u>(60,857)</u>
Fund Cash Balances, January 1, 2003	<u>54,895</u>	<u>230,224</u>	<u>0</u>	<u>285,119</u>
Fund Cash Balances, December 31, 2003	<u><u>\$46,908</u></u>	<u><u>\$177,354</u></u>	<u><u>\$0</u></u>	<u><u>\$224,262</u></u>

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$7,461	\$0	\$0	\$7,461
Intergovernmental Receipts	41,411	5,516	30,092	77,019
Fines, Licenses, and Permits	135	0	0	135
Earnings on Investments	8,096	0	0	8,096
Miscellaneous	386	15	0	401
	<u>57,489</u>	<u>5,531</u>	<u>30,092</u>	<u>93,112</u>
Total Cash Receipts				
	<u>57,489</u>	<u>5,531</u>	<u>30,092</u>	<u>93,112</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,728	0	0	2,728
Public Health Services	236	385	0	621
Leisure Time Activities	5,820	0	0	5,820
Community Environment	8,314	0	0	8,314
Basic Utility Services	1,782	0	0	1,782
Transportation	0	938	0	938
General Government	15,182	6	0	15,188
Capital Outlay	42,930	0	30,092	73,022
	<u>76,992</u>	<u>1,329</u>	<u>30,092</u>	<u>108,413</u>
Total Cash Disbursements				
	<u>76,992</u>	<u>1,329</u>	<u>30,092</u>	<u>108,413</u>
Total Receipts Over/(Under) Disbursements	<u>(19,503)</u>	<u>4,202</u>	<u>0</u>	<u>(15,301)</u>
Other Financing Receipts and (Disbursements):				
Other Financing Receipts	804	38	0	842
	<u>804</u>	<u>38</u>	<u>0</u>	<u>842</u>
Total Other Financing Receipts/(Disbursements)				
	<u>804</u>	<u>38</u>	<u>0</u>	<u>842</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(18,699)</u>	<u>4,240</u>	<u>0</u>	<u>(14,459)</u>
Fund Cash Balances, January 1, 2002	<u>73,594</u>	<u>225,984</u>	<u>0</u>	<u>299,578</u>
Fund Cash Balances, December 31, 2002	<u>\$54,895</u>	<u>\$230,224</u>	<u>\$0</u>	<u>\$285,119</u>

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

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**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

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 governs the Village. The Village provides general governmental services, including park operations (recreation), and street maintenance. The Village contracts with Rochester Township to receive fire protection services. Police protection is provided by the Lorain County Sheriff.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

CSX Fund - This fund received a one time settlement in fiscal year 2000 regarding train wayside noise. The Village Council will determine the use of the funds in the future.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

3. Capital Project Funds

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

Capital Improvement Fund: This fund is used to account for proceeds of State Issue II grants. The proceeds are being used for various street improvement projects.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2004, 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	2004	2003	2002
Demand deposits	\$30,148	\$199,124	\$60,063
Certificates of deposit	196,143	25,138	225,056
Total deposits	\$226,291	\$224,262	\$285,119

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004, December 31, 2003 and December 31, 2002 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,220	\$31,104	\$2,884
Special Revenue	3,300	6,858	3,558
Capital Projects	0	0	0
Total	\$31,520	\$37,962	\$6,442

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$69,240	\$24,585	\$44,655
Special Revenue	186,228	11,348	174,880
Capital Projects	0	0	0
Total	\$255,468	\$35,933	\$219,535

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$34,684	\$34,803	\$119
Special Revenue	9,200	6,067	(3,133)
Capital Projects	4,000	17,045	13,045
Total	\$47,884	\$57,915	\$10,031

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,933	\$42,790	\$143
Special Revenue	238,593	58,937	179,656
Capital Projects	0	17,045	(17,045)
Total	<u>\$281,526</u>	<u>\$118,772</u>	<u>\$162,754</u>

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,075	\$58,293	\$26,218
Special Revenue	20,765	5,569	(15,196)
Capital Projects	110,000	30,092	(79,908)
Total	<u>\$162,840</u>	<u>\$93,954</u>	<u>(\$68,886)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$58,000	\$76,992	(\$18,992)
Special Revenue	235,955	1,329	234,626
Capital Projects	0	30,092	(30,092)
Total	<u>\$293,955</u>	<u>\$108,413</u>	<u>\$185,542</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General and Capital Improvements Funds by \$18,992 and \$30,092, respectively, for the year ended December 31, 2002 and in the Capital Improvement Fund by \$17,045 for the year ended December 31, 2003.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

5. RETIREMENT SYSTEM

The Village's employee belongs to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004, 2003, and 2002, OPERS member employees contributed 8.5 percent of their gross salaries. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

6. RISK MANAGEMENT

Risk Pool Membership

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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000, up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

6. RISK MANAGEMENT (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004, 2003, and 2002:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets	\$30,547,049	\$25,288,098	\$20,174,977
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>	<u>(8,550,749)</u>
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>	<u>\$11,624,228</u>

<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,652,970	\$3,158,813	\$2,565,408
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>	<u>(655,318)</u>
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>	<u>\$1,910,090</u>

7. SUBSEQUENT EVENT

In November 2005, the Village was notified by the Internal Revenue Service that federal income tax informational returns had not been filed for the tax year 2002.



**Auditor of State
Betty Montgomery**

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

Village Council
Village of Rochester
Lorain County
52185 Griggs Road
Wellington, Ohio 44090

We were engaged to audit the accompanying financial statements of the Village of Rochester, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated October 25, 2005. We did not express an opinion on these financial statements because the Village could not provide documentation to support the cash disbursements for the period beginning January 1, 2002 through December 31, 2003. Except as discussed in the preceding sentence, we conducted our engagement in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

We have audited the financial statements of the Village of Rochester, Lorain County, Ohio, (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated October 25, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness. In a separate letter to the Village's management dated October 25, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-002 through 2004-009. In a separate letter to the Village's management dated October 25, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 25, 2005

VILLAGE OF ROCHESTER
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002

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

FINDING NUMBER	2004-001
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RECORD RETENTION

The primary source of information in conducting an audit is the records kept by the Village. The better the record keeping, the smoother the audit will run. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that are designed to record, process, summarize, and report transactions consistent with management's assertions. Also, the fair presentation of financial statements, in accordance with either generally accepted accounting principles or another comprehensive basis of accounting, is a direct and integral part of management's responsibility to provide reliable and accurate information. During this engagement, we were unable to verify the expenditures made by the Village for 2002 and 2003. Management showed no evidence of maintaining expenditure records in detail including, but not limited to, vouchers, vendor invoices, canceled checks, certain bank statements, W-2's, and/or withholding statements to support the cash disbursements for the period January 1, 2002 through December 31, 2003.

Without accurate and complete recording and presentation of financial activity, the financial position of the Village cannot be determined nor confirmed. Also, in the absence of complete and accurate financial records and financial statements, the Village could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

We recommend the Village develop and maintain a system of control and financial records which exhibit the financial position of the Village, and at a minimum, consist of the following:

- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Development of a system to document approvals for expenditures made;
- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements to Council;
- Development of Council policies which enumerate and describe the financial records to be maintained by the Village;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the Village's financial transactions;
- Evidence of review of the financial statements and supporting documentation by Village Council and management;
- Look-alike financial statements which include all statements required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*;
- Notes to the financial statements which consist of all disclosures required by Generally Accepted Accounting Principles; and,
- Any other records (financial and non-financial) which Council or management should determine to be useful in the discharge of their duties.

Records retention began upon hiring of the current Village clerk-treasurer.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

FINDING NUMBER	2004-002
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DESTRUCTION OF PUBLIC RECORDS

Ohio Rev. Code Section 149.351 (A) states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

The Village was unable to provide the necessary records to perform the audit for the years ending December 31, 2002 and December 31, 2003. These records included bank statements, canceled checks, purchase orders, original invoices from vendors, payroll withholding records, and IRS form W-2's. Without this documentation the Village could not substantiate expenditures, reconcile the book to bank balances, monitor its spending, or know the financial position of the Village. This condition was a limitation on the scope of our audit which resulted in a disclaimer of opinion on the 2002 and 2003 financial statements.

The Village should develop policies and procedures regarding position, safekeeping and transferring of Village records among the clerks. The Village should obtain information from the records commission regarding length of time to retain records, recommended storage methods and procedures for proper disposal of public records.

FINDING NUMBER	2004-003
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COMPETITIVE BIDDING

Ohio Rev. Code Section 731.14 states that all contracts made by the legislative authority of a village shall be executed in the name of the village and signed on its behalf by the mayor and clerk. When any expenditure, other than compensation of persons employed therein, exceeds twenty-five thousand dollars, such contracts shall be in writing and made with the lowest and best bidder after advertising for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the village. Prior to September 26, 2003, the threshold limit for competitive bidding was fifteen thousand dollars.

On December 27, 2002, the Village issued two checks in the amount of \$21,465.04 each, payable to Snider & Associates, Inc for the purchase of playground equipment. While our review of the minutes of Village Council disclosed approval to purchase the equipment, we did not note an authorization to request bids for the equipment.

During 2003, the Village issued five checks totaling \$64,045.20 to D.B. Concrete for the installation of sidewalks. The minutes document that a quote was received from D.B. Concrete to install sidewalks on one side of the street in the amount of \$30,157. However, no authorization was noted to let bids for the project. The following comment was noted in the July 7, 2003 minutes of Council: "The sidewalks will be done and billed in segments to not exceed \$15,000 so there will be no need to bid out."

Competitive bidding allows a local government to receive the best value for dollar spent. Circumventing the bidding process could result in the appearance of conflicts of interest.

VILLAGE OF ROCHESTER
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)

FINDING NUMBER	2004-003
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COMPETITIVE BIDDING (Continued)

The Village should follow proper competitive bidding procedures when the costs of purchases or projects exceed the statutory bidding limit.

FINDING NUMBER	2004-004
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CERTIFICATION OF THE AVAILABILITY OF APPROPRIATIONS AND RESOURCES FOR EXPENDITURE

Ohio Rev. Code Section 5705.41(D)(1), requires in part that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from previous encumbrances.

There are several exceptions to the standard requirement stated above, one of which is provided for in Section 5705.41(D)(1):

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

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

During 2004, in 20 out of 20 items tested, the Village Clerk did not certify the availability of funds for the purchase. Additionally, there was no evidence of “then and now” certificates. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Village Clerk certify the availability of funds prior to making purchase commitments. We also recommend the Village utilize the “Then and Now” Certificates when appropriate.

FINDING NUMBER	2004-005
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BUDGETING FOR OHIO DEPARTMENT OF TRANSPORTATION PROJECTS

Ohio Rev. Code Section 5705.09 (F) requires, in part, a special fund be created for each class of revenues derived from a source other than the general property tax which the law requires to be used for a particular purpose. Failure to create such a fund classification also means budget requirements will not be adhered to. Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. Ohio Rev. Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount included in the official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)**

FINDING NUMBER	2004-005
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BUDGETING FOR OHIO DEPARTMENT OF TRANSPORTATION PROJECTS (Continued)

Ohio Rev. Code Section 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation for any purpose may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation.

The Village participates in the Ohio Department of Transportation Issue II Program and received grants totaling \$17,045 in 2003 and \$30,092 in 2002. The Village did not create the required fund. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant should have been included. The Village failed to certify the revenues to the County Budget Commission and failed to formally adopt appropriations for the expenditures paid on behalf of the Village by the Ohio Department of Transportation. This resulted in the understatement of budgetary revenue and expenditure activity for the Issue II project.

We recommend the Village follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Village receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County Budget Commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Village's books.

FINDING NUMBER	2004-006
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EXPENDITURES IN EXCESS OF APPROPRIATIONS

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. The Village's legal level of budgetary control is at the fund level.

The following fund had expenditures exceeding appropriations at the legal level of budgetary control on December 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Capital Improvement Fund	\$0	\$17,045	(\$17,045)

The following funds had expenditures exceeding appropriations at the legal level of budgetary control on December 31, 2002:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund	\$58,000	\$76,992	(\$18,992)
Solid Waste Management Grant	\$0	\$385	(\$385)
Capital Improvement Fund	\$0	\$30,092	(\$30,092)

By not amending appropriations, expenditures in the above funds could exceed the total of the available fund balance and the current year revenues which could result in a negative cash fund balance.

VILLAGE OF ROCHESTER
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)

FINDING NUMBER	2004-006
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EXPENDITURES IN EXCESS OF APPROPRIATIONS (Continued)

Prior to making expenditures, we recommend the Village compare appropriations to proposed expenditures plus encumbrances at the legal level of budgetary control, in all funds which are legally required to be budgeted, to ensure compliance with this requirement. Should the proposed expenditure exceed appropriations, the expenditure should be delayed until the appropriation can be amended by Council.

FINDING NUMBER	2004-007
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ADOPTION OF TAX BUDGET

Ohio Rev. Code Section 5705.28(A)(2) requires the Village Council as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Our review of the 2003 minutes did not disclose an entry where Village Council adopted the annual tax budget for the year 2004. The Village Clerk submitted the budget to the County Budget Commission without being formally adopted by the Village Council.

We recommend the Village formally adopt a tax budget on or before July 15 of each year.

FINDING NUMBER	2004-008
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CERTIFICATION OF AVAILABLE REVENUE AND FUND BALANCES

Ohio Rev. Code Section 5705.36(A)(1) requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units certify to the County Auditor the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year.

The Village did not file its certificate of available revenue for 2002, 2003 and 2004 with the County Auditor until March 2002, 2003 and 2004. By not certifying year-end balances to the County Auditor, and subsequently obtaining an amended Certificate of Estimated Resources from him, the Village could base appropriations on outdated estimates of available resources which could result in negative fund balances.

We recommend the Village file its certificate of available revenue on or about the first day of each fiscal year to provide the Budget Commission with fund balances to be included in the Amended Certificate of Estimated Resources.

FINDING NUMBER	2004-009
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ANNUAL APPROPRIATION AUTHORIZATIONS

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure be passed. The village may pass a temporary appropriation measure to meet their ordinary expenses until April 1, at which time a permanent appropriation measure must be passed.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**
SCHEDULE OF FINDINGS
DECEMBER 31, 2004, 2003 AND 2002
(CONTINUED)

FINDING NUMBER	2004-009
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ANNUAL APPROPRIATION AUTHORIZATIONS (Continued)

Ohio Rev. Code Section 5705.45 states, in part, that any officer, employee, or other person who authorizes or executes any contract contrary to sections 5705.01 to 5705.47 of the Revised Code, or expends or authorizes the expenditure of any public funds on any such void contract, obligation, or order, unless subsequently approved as provided in that section, or issues a certificate under the provisions thereof which contains any false statements, shall be liable to the political subdivision for the full amount paid from the funds of the subdivision on any such order, contract, or obligation.

Based on the minutes of Council for 2002, permanent appropriations were approved by Council on April 5, 2002. There was no indication in the minutes a temporary appropriation ordinance was passed. For 2003, a temporary appropriation ordinance was passed on February 23, 2003 with the permanent appropriations approved on March 3, 2003. For 2004, permanent appropriations were approved by Council on March 1, 2004. However, the minutes did not indicate Council adopted a temporary appropriation measure to authorize expenditures for January and February 2004. As a result, expenditures made prior to adopting a temporary or permanent appropriation ordinance were not legally expended and Village officials could be subject to the provisions of Ohio Rev. Code Section 5705.45.

The Village should adopt a temporary or permanent appropriation measure by January 1 each year to meet ordinary expenses. If a temporary measure is approved, the permanent appropriations must be authorized by March 31.

**VILLAGE OF ROCHESTER
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2001-30847-001	Revised Code 5705.41(D), failure to certify funds	No	Not corrected, repeated as finding number 2004-004
2001-30847-002	Revised Code 117.38, filing of annual reports	Yes	Fully corrected
2001-30847-003	Revised Code 5705.09 (F), special fund creation	No	Not corrected, repeated as finding number 2004-005
2001-30847-004	5705.41(B), expenditures properly appropriated	No	Not corrected, repeated as finding number 2004-006



**Auditor of State
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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
DECEMBER 27, 2005**