



Mary Taylor, CPA
Auditor of State

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY

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Mary Taylor, CPA
Auditor of State

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

To the Village Council:

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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 30, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of Village of Rock Creek, Ashtabula County, (the Village) as of and for the years ended December 31, 2006 and December 31, 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and December 31, 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and December 31, 2005, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Rock Creek, Ashtabula County, as of December 31, 2006 and December 31, 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 May 30, 2008, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 30, 2008

VILLAGE OF ROCK CREEK
ASHTABULA COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$21,727	\$31,902	\$0	\$0	\$53,629
Municipal Income Tax	75,610			8,401	84,011
Intergovernmental	29,699	37,716		249,900	317,315
Special Assessments			56,061		56,061
Charges for Services				41,747	41,747
Fines, Licenses and Permits	5,919				5,919
Earnings on Investments	19,287	1,479			20,766
Miscellaneous	3,136	190			3,326
Total Cash Receipts	155,378	71,287	56,061	300,048	582,774
Cash Disbursements:					
Current:					
Security of Persons and Property		10,163			10,163
Public Health Services	3,713				3,713
Community Environment	604				604
Basic Utility Service	6,630				6,630
Transportation	580	46,129			46,709
General Government	92,438	388			92,826
Debt Service:					
Redemption of Principal			89,563	38,238	127,801
Interest and Fiscal Charges			30,088	163	30,251
Capital Outlay				337,588	337,588
Total Cash Disbursements	103,965	56,680	119,651	375,989	656,285
Total Receipts Over/(Under) Disbursements	51,413	14,607	(63,590)	(75,941)	(73,511)
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Other Debt Proceeds				50,000	50,000
Transfers-In		4,500	24,101	8,052	36,653
Transfers-Out	(36,601)	(8,052)			(44,653)
Other Financing Uses		(3,577)	(1,996)		(5,573)
Total Other Financing Receipts / (Disbursement)	(36,601)	(7,129)	22,105	58,052	36,427
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	14,812	7,478	(41,485)	(17,889)	(37,084)
Fund Cash Balances, January 1	749	102,587	404,170	54,576	562,082
Fund Cash Balances, December 31	\$15,561	\$110,065	\$362,685	\$36,687	\$524,998

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$248,275	\$0	\$248,275
Fines, Licenses and Permits	52,312		52,312
Miscellaneous	32,433		32,433
	<u>333,020</u>	<u>0</u>	<u>333,020</u>
Operating Cash Disbursements:			
Personal Services	69,402		69,402
Contractual Services	161,379		161,379
Supplies and Materials	101,826		101,826
	<u>332,607</u>	<u>0</u>	<u>332,607</u>
Operating Income/(Loss)	<u>413</u>	<u>0</u>	<u>413</u>
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts	1,663		1,663
	<u>1,663</u>	<u>0</u>	<u>1,663</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	10,000		10,000
Interest and Other Fiscal Charges	6,600		6,600
Other Non-Operating Cash Disbursements	1,043		1,043
	<u>17,643</u>	<u>0</u>	<u>17,643</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	<u>(15,567)</u>	<u>0</u>	<u>(15,567)</u>
Transfers-In	43,195		43,195
Transfers-Out	<u>(35,195)</u>		<u>(35,195)</u>
Net Receipts Over/(Under) Disbursements	(7,567)	0	(7,567)
Fund Cash Balances, January 1	<u>41,061</u>	<u>117</u>	<u>41,178</u>
Fund Cash Balances, December 31	<u>\$33,494</u>	<u>\$117</u>	<u>\$33,611</u>

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Local Taxes	\$22,149	\$29,493	\$0	\$0	\$51,642
Municipal Income Tax	67,879			7,413	75,292
Intergovernmental	30,773	40,506		10,015	81,294
Special Assessments			60,381		60,381
Charges for Services				5,815	5,815
Fines, Licenses and Permits	2,065				2,065
Earnings on Investments	5,919	957			6,876
Miscellaneous	15,106	170			15,276
	<u>143,891</u>	<u>71,126</u>	<u>60,381</u>	<u>23,243</u>	<u>298,641</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
Security of Persons and Property	14,294	10,107			24,401
Public Health Services	3,451				3,451
Community Environment	325				325
Basic Utility Service	1,138				1,138
Transportation		59,511			59,511
General Government	87,584	425			88,009
Debt Service:					
Redemption of Principal			56,542	16,459	73,001
Interest and Fiscal Charges			22,946	843	23,789
Capital Outlay		5,000		37,734	42,734
	<u>106,792</u>	<u>75,043</u>	<u>79,488</u>	<u>55,036</u>	<u>316,359</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	<u>37,099</u>	<u>(3,917)</u>	<u>(19,107)</u>	<u>(31,793)</u>	<u>(17,718)</u>
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes				73,950	73,950
Transfers-In			40,998	8,052	49,050
Transfers-Out	(45,798)	(8,052)			(53,850)
Other Financing Uses		(3,585)	(2,258)		(5,843)
	<u>(45,798)</u>	<u>(11,637)</u>	<u>38,740</u>	<u>82,002</u>	<u>63,307</u>
Total Other Financing Receipts / (Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(8,699)	(15,554)	19,633	50,209	45,589
Fund Cash Balances, January 1	9,448	118,141	384,537	4,367	516,493
Fund Cash Balances, December 31	<u><u>\$749</u></u>	<u><u>\$102,587</u></u>	<u><u>\$404,170</u></u>	<u><u>\$54,576</u></u>	<u><u>\$562,082</u></u>

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$240,286	\$0	\$240,286
Miscellaneous	1,509		1,509
Total Operating Cash Receipts	<u>241,795</u>	<u>0</u>	<u>241,795</u>
Operating Cash Disbursements:			
Personal Services	99,513		99,513
Employee Fringe Benefits			0
Contractual Services	68,236		68,236
Supplies and Materials	102,486		102,486
Total Operating Cash Disbursements	<u>270,235</u>	<u>0</u>	<u>270,235</u>
Operating Income/(Loss)	<u>(28,440)</u>	<u>0</u>	<u>(28,440)</u>
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts	1,239		1,239
Total Non-Operating Cash Receipts	<u>1,239</u>	<u>0</u>	<u>1,239</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	10,000		10,000
Interest and Other Fiscal Charges	7,100		7,100
Other Non-Operating Cash Disbursements	936		936
Total Non-Operating Cash Disbursements	<u>18,036</u>	<u>0</u>	<u>18,036</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	<u>(45,237)</u>	<u>0</u>	<u>(45,237)</u>
Transfers-In	46,657		46,657
Transfers-Out	(41,857)		(41,857)
Net Receipts Over/(Under) Disbursements	(40,437)	0	(40,437)
Fund Cash Balances, January 1	<u>81,498</u>	<u>117</u>	<u>81,615</u>
Fund Cash Balances, December 31	<u>\$41,061</u>	<u>\$117</u>	<u>\$41,178</u>

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Rock Creek, Ashtabula County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities. The Village contracts with the Ashtabula County Sheriff's department to provide security of persons and property. The Village contracts with Morgan Township to receive fire protection services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash 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.

The Village values certificates of deposit and repurchase agreements, 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 Funds

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Funds:

Special Assessment Fund – This fund receives special assessment money which was levied on certain user of the sanitary sewer system to repay the principal and interest on loans from the Ohio Water Development Authority (OWDA) used to finance the installation of sewer lines.

4. 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 funds:

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

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

Water Plant – This fund received an OPWC grant and the proceeds of an OWDA loan to make repairs to the Water Plant.

5. Enterprise Funds

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

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

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

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

6. Fiduciary Fund -- Agency

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for:

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

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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:

	2006	2005
Demand deposits	(\$11,844)	(\$40,323)
Certificates of deposit	306,734	302,748
Total deposits	294,890	262,425
Investments:		
Repurchase agreement	263,719	340,835
Total investments	263,719	340,835
Total deposits and investments	\$558,609	\$603,260

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

Investments: The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and December 31, 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$119,315	\$155,378	\$36,063
Special Revenue	68,055	75,787	7,732
Debt Service	64,169	80,162	15,993
Capital Projects	344,500	358,100	13,600
Enterprise	351,307	377,878	26,571
Total	\$947,346	\$1,047,305	\$99,959

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$142,000	\$140,566	\$1,434
Special Revenue	67,680	68,309	(629)
Debt Service	121,648	121,647	1
Capital Projects	371,829	375,989	(4,160)
Enterprise	390,611	385,445	5,166
Total	\$1,093,768	\$1,091,956	\$1,812

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$143,213	\$143,891	\$678
Special Revenue	74,579	71,126	(3,453)
Debt Service	84,725	101,379	16,654
Capital Projects	69,613	105,245	35,632
Enterprise	302,352	289,691	(12,661)
Total	\$674,482	\$711,332	\$36,850

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$152,683	\$152,590	\$93
Special Revenue	116,297	86,680	29,617
Debt Service	66,500	81,746	(15,246)
Capital Projects	69,443	55,036	14,407
Enterprise	360,715	330,128	30,587
Total	\$765,638	\$706,180	\$59,458

- (1)- Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Capital Project Water Loan fund, Permissive Fund, Street Lighting fund, Sewer fund, and the Special Assessment fund for the year ended December 31, 2006 and the Special Assessment fund and Cemetery fund for the year ended December 31, 2005.
- (2)- Contrary to Ohio Law, appropriations exceeded the total estimated resources in the General fund, Street Construction, Maintenance and Repair fund, Water fund, and Sewer fund for the years ended December 31, 2006 and 2005, and also the Reserve fund in the year ended December 31, 2005.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Loans	\$447,560	2.0-7.89%
Mortgage Revenue Bonds	\$122,000	5.00%
G.O. Promissory Note	\$45,876	4.25%
OPWC	186,882	0.00%
Total	<u>\$802,318</u>	

The Ohio Water Development Authority (OWDA) loans relate to 1989 sewer construction projects. The OWDA has approved \$1,453,059 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$40,683, including interest, over 20-25 years. In 2006 the OWDA approved \$269,300 in loans to the Village for Water System Improvements. The Village will repay this loan in semiannual installments of \$5,207, including interest, over 30 years. The village Water and sewer receipts collateralize these loans. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The mortgage revenue bonds \$295,000 (1975) relates to financing improvements made to the Village's waterworks system. The bonds are payable only from the revenues and properties of the Utility and will be repaid in annual installments including interest of \$17,000, over 40 years, after provisions for the reasonable operating and maintenance expenses thereof. The bonds are to be secured by mortgaging all the properties of the Village used in and directly connected with the operation of the Utility.

The promissory note relates to the purchase of new water meters under an agreement with The Ohio Environmental Protection Agency. The original issue was for \$60,000 in 2005 and will be repaid in quarterly installments of \$3,329, including interest, over 5 years. The loan is collateralized by water user fees, and the Village's taxing authority.

The Ohio Public Works Commission (OPWC) loans were used to finance waterline improvements for Water Street and for Water System Improvements. The original issue for Water Street (2003) was \$161,037 and will be repaid in semiannual installments of \$4,206 over 20 years. The original issue for Water System Improvement Loan (2006) was \$50,000 and will be repaid in semiannual installments of \$1,250, over 20 years. These loans are collateralized by water user fees.

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT - (Continued)

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

Year ending December 31:	OPWC Loans	OWDA Loans	Mortgage Revenue Bonds	General Obligation Notes
2007	\$5,276	\$40,683	\$17,100	\$13,316
2008	10,552	81,365	16,550	13,316
2009	10,552	81,364	17,000	13,316
2010	10,552	81,364	16,400	9,987
2011	10,552	59,001	17,800	
2012 – 2016	52,759	164,874	70,000	
2017 – 2021	52,759			
2022 – 2026	32,630			
2027 – 2031	1,250			
Total	\$186,882	\$508,651	\$154,850	\$49,935

7. RETIREMENT SYSTEMS

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

9. Related Party Transactions

A Village Council member leases land to the Village, which was owned prior to his term on Council.

10. Jointly Governed Organization

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Rock Creek, Ashtabula County, (the Village) as of and for the years ended December 31, 2006 and December 31, 2005, and have issued our report thereon dated May 30, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-004 through 2006-006. A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the deficiencies described above are material weaknesses.

We noted certain matters that we reported to the Village's management in a separate letter dated May 30, 2008.

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 we must report under *Government Auditing Standards* which are disclosed in the accompanying schedule of findings as items 2006-001 through 2006-005.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated May 30, 2008.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

May 30, 2008

**VILLAGE OF ROCK CREEK
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-001

Noncompliance Finding

Ohio Revised Code § 5705.39 prohibits a political subdivision or taxing unit from making a fund appropriation in excess of the estimated revenue available for expenditure from that fund as certified by the budget commission on the official certificate of estimated resources.

As of December 31, we noted that Appropriations exceeded total Estimated Resources in the following funds:

Year	Fund	Total Estimated Resources	Appropriations	Variance
2006				
	General Fund	\$120,064	\$142,000	\$(21,936)
	Street Construction Maintenance and Repair Fund	38,285	42,300	(4,015)
	Water Fund	168,034	187,275	(19,241)
	Sewer Fund	144,267	152,350	(8,083)
2005				
	General Fund	152,661	152,683	(22)
	Street Construction Maintenance and Repair Fund	57,830	69,298	(11,468)
	Water Fund	147,076	147,676	(600)
	Sewer Fund	115,336	116,439	(1,103)
	Reserve Fund	15,225	26,000	(10,775)

This situation may lead to disbursements within the abovementioned funds exceeding the actual resources available.

We recommend that the Village monitor its budgetary cycle throughout the year to ensure that appropriations do not exceed the amounts on the certificate of estimated resources.

Official's Response:

The Clerk will monitor revenues more frequently and apply for a certificate of estimated resources as needed throughout the year. After discussing this issue with the auditors, the Clerk understands the process better.

FINDING NUMBER 2006-002

Noncompliance Finding

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making expenditures unless it has been properly appropriated.

**FINDING NUMBER 2006-002
 (Continued)**

As of December 31, we noted that disbursements exceeded appropriations in the following funds:

Year	Fund	Appropriations	Disbursements	Variance
2006				
	Permissive Fund	\$9,000	\$9,586	\$(586)
	Street Lighting Fund	10,000	10,489	(489)
	C/P Water Loan Fund	71,929	76,090	(4,161)
	Special Assessment Fund	44,725	63,513	(18,788)
	Sewer Fund	152,350	154,490	(2,140)
2005				
	Cemetery Fund	3,206	3,657	(451)
	Special Assessment Fund	22,500	41,940	(19,440)

Further, during our review of non-payroll expenditures, we noted that disbursements exceeded appropriations at the legal level of control in fifty-nine of the ninety five disbursements transactions tested through out the audit period. This was determined by date the purchase order was issued, and amount of appropriations still available at the legal level of control line item at that date in time. These deficiencies could lead to over spending and fund deficits.

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

Official's Response:

The Clerk will monitor expenditures more closely to make sure appropriations are not exceeded.

FINDING NUMBER 2006-003

Noncompliance Finding

Ohio Revised Code § 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify that 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.

**FINDING NUMBER 2006-003
(Continued)**

Noncompliance Finding

Ohio Revised Code § 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” at the time that he is completing his certification “now”, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing Village.
- 2) Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.
- 3) Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During review of expenditures (non-payroll), we noted eighty-two (82) instances out of ninety-five (95) reviewed or 86% of expenditures tested, in which the Village incurred an obligation prior to the Fiscal Officer certifying the availability of funds. More simply, the date of the invoice preceded the date of the purchase order. Also, eight of the ninety-five payments or 8% of expenditures tested had an invoice amount which exceeded the purchase order amount.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

The Administrator will write the requisitions so the Clerk can issue purchase orders on a timelier basis, and this will also help us monitor encumbrances and appropriations more closely.

FINDING NUMBER 2006-004

Noncompliance Finding and Significant Deficiency

The Village was in Violation of an August 8, 2000 contract with the Ashtabula County Commissioners by increasing water rates that were not approved by the County Commissioners for water users on the SR 45N and Rome water lines, which are outside of the Village of Rock Creek. **Village Ordinance 2416** dated October 11, 2006 amending water rates (which amended Ordinance 2221) was submitted to the Ashtabula County Commissioners for approval in October 2006. The Commissioner's declined to approve the Village's rate request in **Ashtabula County Resolution 2006-89SEWA** dated October 31, 2006 and recommended that the issue be sent to arbitration per the terms of the agreement (page 6). The Village states they were unaware that their rate request was denied and referral to arbitration and instituted the unapproved rate beginning with the October 2006 billing cycle (bills sent in November). The new rate also includes a monthly "access" charge of \$20 to all users outside of the Village corporation limit. We estimate the Village over-charged users of the Rome water line by \$1,287 with the higher unapproved water rate, and by \$1,890 for the unapproved access fees. The estimates do not include charges for late fees that may have been charged these accounts.

Further, State Route 45, North (Morgan Township) customers (six) were also charged the \$20 "access" fee in violation of the August 8, 2000 agreement in the amount of \$420.

On January 1, 2007 Ashtabula County acquired control of all the water lines outside of the Village's corporate limits. The Village prepared final bills for water service for the last 15 days of the year. We reconstructed 4 of these accounts from inception (varying times in 2004) through December 31, 2006, our test found two final bills that were correct, and two that were charged additional fees \$136 and \$52 not supported by Ordinance, Resolution or other action by the Village Council. We could not find any documentation that supported these additional charges. We inquired with management but no explanation was provided to us.

To accurately measure the impact of the unapproved/unauthorized rates that were billed the Village would need to reconstruct each individual account for all SR 45N and Rome water line customers residing outside the Village corporate limits. This effort would be complicated by the fact the Village changed software vendors for its water billing in September 2005, and has no customer computer data prior to that date in its computerized billing system database. Other records, print-outs, have been maintained, however, we do not know if a complete record of print-outs exists for 2001-2002.

Official's Response:

The Village now buys bulk water from the County. We do not own these (outside the corporation limit) waterlines anymore. We will not have any further issues with these waterlines

FINDING NUMBER 2006-005

Noncompliance Finding and Significant Deficiency

The Village of Rock Creek and the Ashtabula County Commissioners entered an agreement (contract) dated August 8, 2000 for the construction of water lines and the supply of water to certain areas of Morgan and Rome Townships. In accordance with the terms of the agreement the Village would charge water rates in accordance with Village of Rock Creek **Ordinance 1060** dated October 14, 1992 as amended by **Ordinance 2078** dated May 14, 1997, and **Ordinance 2221** dated June 5, 2002, setting water rates, but the rates established therein were never used by the Village for customers of the Rome Township line. The rates charged Rome water line customers were set at \$19.98 for the minimum of 3,000 gallons and \$6.66 per 1,000 gallons thereafter. This rate remained in effect until the adoption of Village **Ordinance 2416** as noted in the previous finding.

**FINDING NUMBER 2006-005
(Continued)**

Our test of the 27 customer accounts on the Rome water line found that the rate used by the Village undercharged users of less than 5,000 gallons per month and slightly overcharged users of 6,000 gallons or more per month. Also, six commercial users were charged at residential rates. During the period January 1, 2004 through September 15, 2006 we estimate Rome line customers were undercharged \$2,644 and we estimate that total undercharges over the life (68 months) of the Rome water line could be as high as \$8,171.

To accurately measure the impact of the unapproved/unauthorized rates that were billed the Village would need to reconstruct each individual account for all SR 45N and Rome water line customers residing outside the Village corporate limits. This effort would be complicated by the fact the Village changed software vendors for its water billing in September 2005, and has no customer computer data prior to that date in its computerized billing system database. Other records, print-outs, have been maintained, however, we do not know if a complete record of print-outs exists for 2001-2002.

The Village should implement authorization controls to insure that when an Ordinance is passed; follow up is made by Council that said procedures are put into place. Currently the Water Billing Clerk is the sole employee that enters the rate changes to be made to the customer's bills, and no oversight function is performed that the information is correct or implemented accordingly.

We recommend the Village make all efforts possible to determine the over/under charging of each account and make the necessary corrections to the accounts. The Village should also contact their legal counsel for advice on those accounts no longer active for potential liability or receivable of those calculated amounts.

Official's Response:

We will consult with the Solicitor. We no longer have control over these waterlines.

FINDING NUMBER 2006-006

Significant Deficiency

Internal Controls over Purchasing

The Village has developed certain policies and procedure to follow for the purchasing of goods and services, which if implemented, provide controls to help ensure that expenditures are proper and accounted for.

During our control testing of these policies and procedures for non-payroll cash disbursements in which we tested 40 transactions, we noted the following:

- Twenty five of forty transactions did not have a prepared or signed purchase requisition.
- Not all transactions were processed using Village's financial Software.
- Thirteen of forty transactions did not have the voucher packet signed by members of Council or Finance Committee.
- Two of forty transactions did not have the purchase order signed by the Fiscal Officer.

We also identified a misclassification of expenditure in the Capital Project Fund which required an audit adjustment of \$21,007 from the line items capital outlay to debt principal and interest, and has been made to the financial statements of this report.

**FINDING NUMBER 2006-006
(Continued)**

Without following the procedures the Village has adopted, expenditures can be made that were not properly authorized, classified or obligated without having sufficient funds to make payment.

We recommend that the Village review their internal control policies over non-payroll cash disbursements and update them to address the deficiencies noted above. Implementation of this recommendation will assist the Village in proper monitoring of all disbursements.

Official's Response:

The Clerk is presenting all vouchers to Council including all payrolls to correct this. Council will review policies and update as needed.



Mary Taylor, CPA
Auditor of State

VILLAGE OF ROCK CREEK

ASHTABULA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 22, 2008**