



**VILLAGE OF SOMERSET
PERRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF SOMERSET
PERRY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1999	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1999	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1998	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1998	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Somerset
Perry County
P.O. Box 10
Somerset, Ohio 43783

To the Village Council:

We have audited the accompanying financial statements of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 1999 and 1998. 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year end as budgetary expenditures. The Village did not record encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances at year end.

In our opinion, except for such adjustments, if any, that would have been necessary to reflect year end outstanding encumbrances as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Somerset, Perry County, as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2000, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management, the Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 5, 2000

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Tax and Other Local Taxes	\$34,558	\$7,865	\$42,423
Intergovernmental Receipts	59,282	72,904	132,186
Fines, Licenses and Permits	19,944	2,024	21,968
Charges for Services	7,594		7,594
Earnings on Investments	21,888		21,888
Miscellaneous	1,230		1,230
	<u>144,496</u>	<u>82,793</u>	<u>227,289</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	81,504	21,718	103,222
Public Health Services	470		470
Leisure Time Activities	557		557
Community Environment	987		987
Transportation		54,078	54,078
General Government	43,273	2,758	46,031
Debt Service:			
Principal Payments		4,253	4,253
Interest Payments		324	324
Capital Outlay	4,675		4,675
	<u>131,466</u>	<u>83,131</u>	<u>214,597</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>13,030</u>	<u>(338)</u>	<u>12,692</u>
Other Financing Receipts/(Disbursements):			
Transfers-In		300	300
Other Sources/Non-Operating Revenue	2,552	821	3,373
Transfers-Out	(300)		(300)
	<u>2,252</u>	<u>1,121</u>	<u>3,373</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	15,282	783	16,065
Fund Cash Balances, January 1	<u>68,942</u>	<u>47,480</u>	<u>116,422</u>
Fund Cash Balances, December 31	<u>\$84,224</u>	<u>\$48,263</u>	<u>\$132,487</u>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<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	\$412,401	\$	\$412,401
Total Operating Cash Receipts	412,401	0	412,401
Operating Cash Disbursements:			
Personal Services	98,016		98,016
Fringe Benefits	1,134		1,134
Contractual Services	103,392		103,392
Supplies and Materials	75,664		75,664
Capital Outlay	27,840		27,840
Total Operating Cash Disbursements	306,046	0	306,046
Operating Income/(Loss)	106,355	0	106,355
Non-Operating Cash Receipts:			
Intergovernmental Receipts	27,840		27,840
Other Non-Operating Receipts	1,238	22,350	23,588
Total Non-Operating Cash Receipts	29,078	22,350	51,428
Non-Operating Cash Disbursements:			
Debt Service			
Principal Payments	45,804		45,804
Interest Payments	55,458		55,458
Other Non-Operating Cash Disbursements		23,581	23,581
Total Non-Operating Cash Disbursements	101,262	23,581	124,843
Excess of Receipts Over/(Under) Disbursements	34,171	(1,231)	32,940
Fund Cash Balances, January 1	553,432	1,383	554,815
Fund Cash Balances, December 31	<u>587,603</u>	<u>152</u>	<u>587,755</u>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$33,050	\$7,573	\$40,623
Intergovernmental Receipts	35,660	62,533	98,193
Fines, Licenses and Permits	24,547	2,510	27,057
Charges for Services	11,128		11,128
Earnings on Investments	21,177		21,177
Miscellaneous	1,888		1,888
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	127,450	72,616	200,066
Cash Disbursements:			
Current:			
Security of Persons and Property	71,995	11,273	83,268
Public Health Services	490		490
Leisure Time Activities	808		808
Community Environment	636		636
Transportation		49,266	49,266
General Government	39,048	1,805	40,853
Debt Service:			
Principal Payments		4,002	4,002
Interest Payments		575	575
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	112,977	66,921	179,898
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	14,473	5,695	20,168
Other Financing Receipts/(Disbursements):			
Other Sources	<hr/>	<hr/>	<hr/>
	2,155	2,037	4,192
Total Other Financing Receipts/(Disbursements)	<hr/>	<hr/>	<hr/>
	2,155	2,037	4,192
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	16,628	7,732	24,360
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	52,314	39,748	92,062
Fund Cash Balances, December 31	<hr/> \$68,942 <hr/>	<hr/> \$47,480 <hr/>	<hr/> \$116,422 <hr/>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$399,514	\$	\$399,514
Total Operating Cash Receipts	399,514	0	399,514
Operating Cash Disbursements:			
Personal Services	105,632		105,632
Fringe Benefits	1,263		1,263
Contractual Services	100,435		100,435
Supplies and Materials	62,059		62,059
Capital Outlay	197,712		197,712
Total Operating Cash Disbursements	467,101	0	467,101
Operating Income/(Loss)	(67,587)	0	(67,587)
Non-Operating Cash Receipts:			
Intergovernmental Receipts	267,572		267,572
Proceeds from Sale of Public Debt	1,412,000		1,412,000
Miscellaneous	542		542
Other Non-Operating Receipts	5,373	27,862	33,235
Total Non-Operating Cash Receipts	1,685,487	27,862	1,713,349
Non-Operating Cash Disbursements:			
Debt Service			
Principal Payments	1,421,304		1,421,304
Interest Payments	94,660		94,660
Other Non-Operating Cash Disbursements	467	28,676	29,143
Total Non-Operating Cash Disbursements	1,516,431	28,676	1,545,107
Excess of Receipts Over/(Under) Disbursements	101,469	(814)	100,655
Fund Cash Balances, January 1	451,963	2,197	454,160
Fund Cash Balances, December 31	\$553,432	\$1,383	\$554,815

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Somerset, Perry County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Village maintains an overnight repurchase agreement with Firststar Bank. In this agreement, Village funds are withdrawn from the account and invested overnight. Interest on each investment is accrued and credited to each account daily. The amount of interest to be earned varies daily.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds are used to 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 license tax money to construct, maintain and repair Village streets.

Police Levy Fund - This fund receives money from a tax levy approved by the voters to provide police protection for the Village.

Motor Vehicle License Tax Fund - This fund receives motor vehicle license tax money to construct, maintain and repair Village streets.

COPS Grant fund - This fund receives grant monies from the federal Department of Justice to increase the policing of the Village.

3. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as Agency Funds. The Village had the following significant Fiduciary Fund:

Mayor's Court Fund - This fund accounts for the financial activity of the Mayor's Court and is classified as an Agency Fund.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, function or object level of control, and appropriations may not exceed estimated resources. The 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. The Village did not use the encumbrance method of accounting.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>1999</u>	<u>1998</u>
Demand deposits	\$ 26,643	\$ 25,427
Total deposits	26,643	25,427
Repurchase Agreements	693,599	645,810
Total investments	693,599	645,810
Total deposits and investments	\$ 720,242	\$ 671,237

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

Investments: Repurchase Agreements are evidenced by securities that exist in physical or book-entry form.

In accordance with the Village's 1964 Series Bond Debt Issue, funds are on deposit with a trustee bank for the payment of principal and interest. Payments to the trustee bank are shown as expenditures and the trustee accounts are not reflected on the Village's books. The balances in those accounts are as follows:

	<u>1999</u>	<u>1998</u>
Sewer System Depreciation Fund Account	\$ 55,985	\$ 53,701
Bond Reserve Account	11,598	11,598
Total investments	\$ 67,583	\$ 65,299

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 112,400	\$ 147,048	\$ 34,648
Special Revenue	67,890	83,914	16,024
Enterprise	360,010	441,479	81,469
Total	\$ 540,300	\$ 672,441	\$ 132,141

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 141,025	\$ 131,766	\$ 9,259
Special Revenue	88,220	83,131	5,089
Enterprise	687,661	407,308	280,353
Total	<u>\$ 916,906</u>	<u>\$ 622,205</u>	<u>\$ 294,701</u>

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 98,246	\$ 129,605	\$ 31,359
Special Revenue	48,110	74,653	26,543
Enterprise	404,302	2,085,001	1,680,699
Total	<u>\$ 550,658</u>	<u>\$ 2,289,259</u>	<u>\$ 1,738,601</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 120,050	\$ 112,977	\$ 7,073
Special Revenue	91,975	66,921	25,054
Enterprise	497,900	1,983,532	(1,485,632)
Total	<u>\$ 709,925</u>	<u>\$ 2,163,430</u>	<u>\$ (1,453,505)</u>

Compliance and Accountability

The certification of availability of unencumbered appropriations for expenditure was not made prior to purchase commitments being incurred. Section 5705.41(D), Revised Code, requires a certificate of the fiscal officer to be attached to any order of expenditure, prior to a commitment being incurred. As a result, there were no encumbrances to report on the financial statements and outstanding purchase commitments are not included in budgetary disbursements shown above in this note.

Expenditures made by the Village in the Police Levy, COPS Grant and Waterline Replacement Funds for 1999 and in the Police Levy, COPS Grant, Mayor's Court Computer and Sewer Project Loan Funds for 1998, were in violation of Ohio Rev. Code Section 5705.41(B) which prohibits a subdivision from making a disbursement unless it has been properly appropriated.

Appropriations exceeded estimated resources for various Special Revenue funds during both 1999 and 1998, in violation of Ohio Rev. Code Section 5705.39, which states that total appropriations from each fund shall not exceed the total estimated revenue for that fund.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Compliance and Accountability (Continued)

A separate fund was not established for the COPS Grant Fund, contrary to Ohio Rev. Code Section 5705.09(F), which states that each subdivision shall establish a special fund 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.

The Sanitary System Revenue Bond Agreement dated July 21, 1998 requires the Clerk-Treasurer to create and continue in existence a Sewer System Revenue Fund, a Sewer System Debt Service Fund, a Sewer System Reserve Fund and a Sewer System Surplus Fund. The Village has not established a Sewer System Debt Service Fund, a Sewer System Reserve Fund and a Sewer System Surplus Fund.

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 1999 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$ 1,167,000	4.500%
Ohio Water Development Authority Loan	213,000	6.000%
Ohio Public Works Commission Loan	49,556	0.000%
Mortgage Revenue Bonds	42,000	3.625%
General Obligation Notes	2,983	6.100%
Total	\$ 1,474,539	

The Ohio Water Development Authority (OWDA) loans relate to the sewer plant project that was mandated by the Ohio Environmental Protection Agency. The total amount disbursed was \$1,412,000 in loans for this project. The loans will be repaid with the proceeds of sewer revenues in installments as set forth in the original agreement. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

5. DEBT (Continued)

The Ohio Public Works Commission loan relates to a wastewater treatment plant improvement project. The note was approved for \$66,075. The loan will be repaid with the proceeds of utility revenues in semiannual installments of \$1,652 over 20 years.

The Village issued Sewer System Mortgage Revenue bonds in the amount of \$231,000 for the construction of a sewage system and a sewage treatment plant in 1964. Proceeds of utility revenues are used to retire the debt. The required principal and interest payments are made monthly.

During 1995, the Village issued a \$19,683 promissory note to purchase a new dump truck. Principal and interest payments are made monthly from the Street Construction, Maintenance and Repair Fund.

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

Year ending December 31:	OWDA Loan	OWDA Loan	OPWC Loan	Mortgage Revenue Bonds	General Obligation Bonds
2000	\$ 80,515	\$ 14,585	\$ 3,304	\$ 11,522	\$ 3,052
2001	80,255	14,360	3,304	11,160	0
2002	80,950	15,135	3,304	11,798	0
2003	80,555	14,865	3,304	11,399	0
2004	80,115	14,595	3,304	0	0
Subsequent	<u>1,932,225</u>	<u>352,725</u>	<u>33,036</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 2,334,615</u>	<u>\$ 426,265</u>	<u>\$ 49,556</u>	<u>\$ 45,879</u>	<u>\$ 3,052</u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- General liability and casualty
- Public officials' liability
- Vehicles
- Errors and omissions

The Village also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

8. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Somerset
Perry County
P.O. Box 10
Somerset, Ohio 43783

To the Village Council:

We have audited the accompanying financial statements of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated December 5, 2000 in which we indicated the Village did not record encumbrances. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 1999-31064-001 through 1999-31064-006. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated December 5, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 1999-31064-001 and 1999-31064-005 through 1999-31064-010.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1999-31064-001, 1999-31064-007 and 1999-31064-008 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Village in a separate letter dated December 5, 2000.

This report is intended for the information and use of the management and the Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 5, 2000

VILLAGE OF SOMERSET
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998

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

Finding Number	1999-31064-001
----------------	----------------

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.41(D), states that no subdivision or taxing unit shall make any contact 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 purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

Liabilities, contracts, and open purchase commitments were not certified by the Clerk-Treasurer prior to the obligation and Then and Now Certificates were not utilized. The Village also did not use purchase orders, which are required by Ohio Admin. Code Section 117-5-13 (rescinded effective January 1, 2001). Section 117-5-13 requires using purchase orders to record encumbrances.

We recommend that liabilities, contracts, and open purchase commitments be certified by the Village Clerk-Treasurer in accordance with Ohio Rev. Code Section 5705.41(D). We recommend these commitments be recorded on purchase orders.

VILLAGE OF SOMERSET
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)

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

Finding Number	1999-31064-002
----------------	----------------

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

The following funds had expenditures in excess of appropriations in 1999:

Police Levy Fund	\$ 316
COPS Grant Fund	\$ 13,256
Water Line Replacement Fund	\$ 27,840

The following funds had expenditures in excess of appropriations in 1998:

Police Levy Fund	\$ 1,224
Mayor's Court Computer Fund	\$ 826
COPS Grant Fund	\$ 2,902
Sewer Project Loan Grant	\$1,763,874

We recommend the Village monitor budgetary information on a regular basis and utilized the encumbrance method of accounting to prevent disbursements from exceeding appropriations.

Finding Number	1999-31064-003
----------------	----------------

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded estimated resources during 1999 as follows:

State Highway Improvement Fund	\$ 662
Police Levy Fund	\$ 220
Motor Vehicle License Tax	\$3,458

Appropriations exceeded estimated resources during 1998 as follows:

Street Constr. Maint. & Repair Fund	\$2,896
State Highway Improvement Fund	\$1,745
Motor Vehicle License Tax Fund	\$1,884
DUI Education Fund	\$ 250

We recommend the Village review estimated resources before adopting or amending appropriations and that appropriations be posted only after the County Auditor files the certificate with the Village.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)**

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

Finding Number	1999-31064-004
-----------------------	-----------------------

Noncompliance Citation

Ohio Rev. Code Section 5705.09(F) states that each subdivision shall establish a special fund 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.

Grant receipts related to the COPS Grant were credited to the General Fund, in the Other Sources and Miscellaneous Receipts accounts. Monies should have been credited to a Special Revenue fund specifically set up to account for this grant. Monies incorrectly placed in the General Fund could be at risk of being spent without the restrictions that are set forth by Grant Award Conditions and Terms.

We recommend the Village record all activity related to the COPS Grant in a separate fund set up specifically for that purpose. Adjustments with which the Clerk-Treasurer agrees have been made to the financial statements in order to properly account for COPS Grant activity. All receipts for the COPS Grant have been posted to the Intergovernmental Receipts account.

Finding Number	1999-31064-005
-----------------------	-----------------------

Noncompliance Citation and Reportable Condition

Village of Somerset Ordinance No. 98-6, Authorizing the Issuance of Sanitary Sewer System Revenue Bonds (July 21, 1998), authorized the issuance of sanitary sewer system mortgage revenue bonds in the aggregate amount of \$1,412,000 with certain provisions. Section 8 of the Ordinance required the Clerk-Treasurer to create and continue in existence a Sewer System Revenue Fund, and Sewer System Debt Service Fund, a Sewer System Reserve Fund and a Sewer System Surplus Fund. The Clerk-Treasurer had not established a Sewer System Debt Service Fund, a Sewer System Reserve Fund and a Sewer System Surplus Fund.

Section 10(A) of the Ordinance required the following payments to be made out of the Sewer System Revenue Fund and in the following order:

1. All reasonable and proper operating and maintenance expenses incident to the operation of the Sewer System;
2. The payments required by the second through fourth paragraphs of Section 4 of the Series 1964 Bond Ordinance;
3. Semiannually, on the thirtieth day of June and the thirty-first day of December, commencing December 31, 1998: into the Debt Service Fund, (i) an amount not less than one-half of the amount necessary to provide for the payment of the interest due on the next ensuing Interest Payment Date upon all Series 1998 Bonds outstanding; and (ii) an amount not less than one-half of the amount necessary to provide for the payment of the next ensuing principal maturity of all Series 1998 Bonds outstanding;

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)**

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

Finding Number	1999-31064-005 (Continued)
-----------------------	-----------------------------------

Noncompliance Citation and Reportable Condition (Continued)

4. Semiannually, on the thirtieth day of June and the thirty-first day of December, such sum in addition to any of the foregoing allocations as may be necessary and available, after meeting the requirements of the items two and three above, to make up any previous deficiency in any such semiannual allocation; and

5. Out of the balance of the Sewer System Revenue Fund after the allocation required by items two through four above have been made, there shall be set aside and deposited in the Reserve Fund the sum of \$4,912.75, each semi-annual period, until there is accumulated in that Fund the sum of \$98,255.

Payments of principal and interest were made from the Revenue Fund rather than from a Sewer System Debt Service Fund. Without the establishment of the required funds, items three and five above could not be complied with.

Section 9 of the Ordinance required the proceeds of the Series 1998 Bonds to be deposited in the Debt Service Fund and used for the payment of the interim financing. The Clerk-Treasurer credited the Sewer Project Construction Fund rather than utilizing a debt fund as required by the Ordinance. The remaining balance in the Sewer Project Construction Fund (\$61,438) was transferred to the Sewer Revenue Fund during 1998, after the repayment of interim financing. Had the Village established the proper debt funds as required by the Ordinance, any remaining Series 1998 Bond proceeds would have been placed in the Reserve Fund. Adjustments with which the Village agree have been made to the individual enterprise fund balances at January 1, 2000 to reflect the proper handling of these transactions. There was no effect on the combined enterprise fund balance at December 31, 1998 and 1999 as a result of this noncompliance.

Section 14 of the Ordinance indicates that if the Village fails to perform any of the requirements or covenants contained in this Ordinance or in the payment of principal of, or interest on, any Series 1998 Bonds as the same shall come due, upon the filing of a suit by any registered owner of a Series 1998 Bond, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Village with power to charge and collect rates sufficient to provide for the payment of the Series 1998 Bonds and for the payment of operating expenses of the System, and to apply the income and revenues of the System in accordance with this Ordinance, the First Mortgage, the Second Mortgage and the laws of the State of Ohio. We recommend the Village establish the required funds and make the required allocations as required by Ordinance No. 98-6. Once the Series 1964 Bonds are retired, the Village should follow the provisions of Section 10(B), including making Transfers-Out of the Sewer System Revenue Fund into the Surplus Fund. Should questions arise concerning this issue, Village management should consult the Village's legal counsel.

Although there was noncompliance with items three and five above, the aforementioned adjustments would have no net effect on the Enterprise Fund Type fund balances at December 31, 1998 and 1999.

VILLAGE OF SOMERSET
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)

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

Finding Number	1999-31064-006
-----------------------	-----------------------

Noncompliance Citation and Reportable Condition

Ohio Admin. Code Section 117-5-10 prescribed the method by which the receipts journal should have been maintained during this audit period.

A receipts journal was not accurately maintained by the Village. As a result, Village management could not compare budgeted receipts to actual receipts and determine when amended certificates of estimated resources were needed.

Although the aforementioned Ohio Administrative Code Section has been rescinded effective January 1, 2001, we recommend budgeted and actual receipts be posted to the receipts journal as recommended in Ohio Admin. Code Section 117-2-02(D)(2) (effective July 1, 2000), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations.

Finding Number	1999-31064-007
-----------------------	-----------------------

Material Weakness - Bank Reconciliations

The Village did not reconcile book balances to the bank balances on a monthly basis. The year end reconciliations prepared by the Village were not accurate since certain bank accounts did not appear on the reconciliations. In addition, Mayor's Court activity for December, 1999 and December, 1998 was not included on the December 31, 1999 and December 31, 1998 cash reconciliations, respectively. Without monthly reconciliations, errors could occur without being detected in a timely manner.

We recommend a cash reconciliation be performed for all departments having separate bank accounts. The reconciliations should be reviewed and approved by someone other than the preparer. Such approvals could be obtained from Village Council and/or the Board of Public Affairs, as applicable.

VILLAGE OF SOMERSET
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)

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

Finding Number	1999-31064-008
-----------------------	-----------------------

Material Weakness - Issue II Activity

The Village participated in the Issue II Program administered by the Ohio Public Works Commission. A separate project fund was established in the enterprise fund type to account for project costs relating to the Issue II project. However, five transactions made by the State of Ohio on behalf of the Village were not recorded in the fund.

As a result, Issue II Program activity was not properly reflected on the Village's financial statements. Adjustments were made to properly reflect all Issue II Project activity.

We recommend the Clerk-Treasurer follow those procedures prescribed in Auditor of State Management Advisory Services Bulletin 89-17 and Auditor of State Bulletin 2000-08 to properly account for Issue II Program activity.

Finding Number	1999-31064-009
-----------------------	-----------------------

Reportable Condition - Timecard Approvals

Village employees should have their time sheets reviewed and signed off on, indicating approval by immediate supervisors. Additionally, supervisors should have their time sheets reviewed and signed off on by the Mayor.

Our review indicated that time sheets were not reviewed and signed off on. Time sheets not being approved for all employees could lead to a discrepancy between hours worked and hours compensated.

We recommend the Village implement a plan requiring all time sheets to be reviewed and signed off on by an immediate supervisor.

Finding Number	1999-31064-010
-----------------------	-----------------------

Reportable Condition - Documentation of Leave

Our review of the Village payroll system indicated vacation and sick leave records were not properly maintained.

This condition could result in incorrect compensated leave being taken by an employee and/or incorrect payment of accumulated leave to an employee upon termination of employment. The lack of vacation and sick leave records did not allow us to determine compliance with local employee leave ordinances or policies.

VILLAGE OF SOMERSET
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)

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

Finding Number	1999-31064-010 (Continued)
----------------	----------------------------

Reportable Condition - Documentation of Leave (Continued)

We recommend vacation and sick leave records be maintained for each employee. These records should document the leave balance at the end of each pay period, the amount of leave earned during the pay period, and the amount of leave used during the period. A leave use authorization form should be completed and approved each time an employee uses leave. Approved leave forms should be maintained for future reference. Council should determine a method to review and calculate the existing leave balances and formally approve all beginning balances that will be posted to the leave records. Council should also consider whether limits should be set on the amount of leave that can be accumulated and establish policies for the payment of unused sick leave upon retirement.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF SOMERSET

PERRY 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 19, 2000**