



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF SOMERSET
PERRY COUNTY

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STATE OF OHIO
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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, 2001 and 2000. 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 *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 in Note 3. 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, 2001 and 2000, 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 November 13, 2002, 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 audit committee, management, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 13, 2002

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, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$35,773	\$7,959	\$	\$43,732
Intergovernmental Receipts	51,399	62,581	106,000	219,980
Charges for Services	13,526			13,526
Fines, Licenses, and Permits	16,501	3,060		19,561
Earnings on Investments	12,541			12,541
Miscellaneous	1,469		9,140	10,609
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	131,209	73,600	115,140	319,949
Cash Disbursements:				
Current:				
Security of Persons and Property	96,011	22,355		118,366
Leisure Time Activities	750			750
Community Environment	981			981
Transportation		40,361		40,361
General Government	52,389	3,179	4	55,572
Capital Outlay	7,025		150,195	157,220
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	157,156	65,895	150,199	373,250
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(25,947)	7,705	(35,059)	(53,301)
Other Financing Receipts/(Disbursements):				
Proceeds of Note			36,066	36,066
Other Financing Receipts	11,955	1,608		13,563
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	11,955	1,608	36,066	49,629
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(13,992)	9,313	1,007	(3,672)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	86,521	66,886		153,407
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$72,529	\$76,199	\$1,007	\$149,735

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, 2001**

	<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	\$421,986	\$	\$421,986
Miscellaneous	431		431
Total Operating Cash Receipts	<u>422,417</u>		<u>422,417</u>
Operating Cash Disbursements:			
Personal Services	107,313		107,313
Travel Transportation	2,401		2,401
Contractual Services	114,495		114,495
Supplies and Materials	66,255		66,255
Capital Outlay	102,879		102,879
Total Operating Cash Disbursements	<u>393,343</u>		<u>393,343</u>
Operating Income/(Loss)	<u>29,074</u>		<u>29,074</u>
Non-Operating Cash Receipts:			
Intergovernmental Receipts	102,879		102,879
Other Non-Operating Receipts	2,303	28,077	30,380
Total Non-Operating Cash Receipts	<u>105,182</u>	<u>28,077</u>	<u>133,259</u>
Non-Operating Cash Disbursements:			
Debt Service			
Principal Payments	54,282		54,282
Interest Payments	66,709		66,709
Financing and Other Debt-Service Related	400		400
Other Non-Operating Cash Disbursements		28,000	28,000
Total Non-Operating Cash Disbursements	<u>121,391</u>	<u>28,000</u>	<u>149,391</u>
Net Receipts Over/(Under) Disbursements	12,865	77	12,942
Fund Cash Balances, January 1	<u>612,701</u>	<u>38</u>	<u>612,739</u>
Fund Cash Balances, December 31	<u>\$625,566</u>	<u>\$115</u>	<u>\$625,681</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, 2000**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$32,460	\$6,951	\$39,411
Intergovernmental Receipts	51,586	60,193	111,779
Charges for Services	13,244		13,244
Fines, Licenses, and Permits	17,053	2,742	19,795
Earnings on Investments	22,621		22,621
Miscellaneous	1,324		1,324
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	138,288	69,886	208,174
Cash Disbursements:			
Current:			
Security of Persons and Property	95,011	8,190	103,201
Leisure Time Activities	750		750
Community Environment	397		397
Transportation		38,530	38,530
General Government	52,571	2,404	54,975
Debt Service:			
Principal Payments		3,027	3,027
Interest Payments		69	69
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	148,729	52,220	200,949
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/> (10,441)	<hr/> 17,666	<hr/> 7,225
Other Financing Receipts/(Disbursements):			
Other Financing Receipts	12,738	957	13,695
Other Financing Disbursements			0
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	12,738	957	13,695
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	2,297	18,623	20,920
Fund Cash Balances January 1	<hr/> 84,224	<hr/> 48,263	<hr/> 132,487
Fund Cash Balances, December 31	<hr/> \$86,521	<hr/> \$66,886	<hr/> \$153,407

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 TYPE:
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<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	\$425,657	\$	\$425,657
Miscellaneous	569		569
Total Operating Cash Receipts	<u>426,226</u>		<u>426,226</u>
Operating Cash Disbursements:			
Personal Services	95,038		95,038
Travel Transportation	2,062		2,062
Contractual Services	102,784		102,784
Supplies and Materials	79,152		79,152
Capital Outlay	374,799		374,799
Total Operating Cash Disbursements	<u>653,835</u>		<u>653,835</u>
Operating Income/(Loss)	<u>(227,609)</u>		<u>(227,609)</u>
Non-Operating Cash Receipts:			
Intergovernmental Receipts	137,293		137,293
Proceeds from Loan	230,590		230,590
Other Non-Operating Receipts	1,523	24,958	26,481
Total Non-Operating Cash Receipts	<u>369,406</u>	<u>24,958</u>	<u>394,364</u>
Non-Operating Cash Disbursements:			
Debt Service			
Principal Payments	50,099		50,099
Interest Payments	66,225		66,225
Financing and Other Debt-Service Related	375		375
Other Non-Operating Cash Disbursements		25,072	25,072
Total Non-Operating Cash Disbursements	<u>116,699</u>	<u>25,072</u>	<u>141,771</u>
Net Receipts Over/(Under) Disbursements	25,098	(114)	24,984
Fund Cash Balances, January 1	<u>587,603</u>	<u>152</u>	<u>587,755</u>
Fund Cash Balances, December 31	<u>\$612,701</u>	<u>\$38</u>	<u>\$612,739</u>

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, 2001 AND 2000**

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 government services, including water and sewer utilities, park operations (leisure time activities), and police services (security of persons and property).

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. 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 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.

2. Special Revenue Fund

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:

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

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

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

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Courthouse Restoration Fund – This fund receives grants and proceeds of general obligation bonds used to make improvements to the courthouse.

4. 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.

5. 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 agency fund:

Mayor's Court Fund – This fund accounts for the receipts and distributions of the Mayor's Court.

E. Budgetary Process

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2001 and 2000 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. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

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>2001</u>	<u>2000</u>
Demand deposits	\$24,456	\$28,327
Repurchase agreement	750,960	737,819
Total deposits and investments	<u>\$775,416</u>	<u>\$766,146</u>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$122,103	\$143,164	\$21,061
Special Revenue	67,450	75,208	7,758
Capital Projects	0	151,206	151,206
Enterprise	360,000	527,599	167,599
Total	\$549,553	\$897,177	\$347,624

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$184,626	\$157,156	\$27,470
Special Revenue	114,166	65,895	48,271
Capital Projects	0	150,199	(150,199)
Enterprise	895,288	514,734	380,554
Total	\$1,194,080	\$887,984	\$306,096

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$131,819	\$151,026	\$19,207
Special Revenue	69,820	70,843	1,023
Enterprise	370,000	795,632	425,632
Total	\$571,639	\$1,017,501	\$445,862

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$184,626	\$148,729	\$35,897
Special Revenue	114,166	52,220	61,946
Enterprise	895,288	770,534	124,754
Total	\$1,194,080	\$971,483	\$222,597

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Compliance and Accountability:

Contrary to Ohio law, the certification of availability of unencumbered appropriations for expenditures was not made prior to purchase commitments being incurred. As a result, outstanding purchase commitments are not included in budgetary disbursements shown above in this note.

Contrary to Ohio law, expenditures exceeded appropriations in the following funds and amounts:

2001			
Fund	Appropriations	Budgetary Expenditures	Variance
DUI Education Fund	\$1,569	\$3,938	(\$2,369)
COPS Grant Fund	\$0	\$18,417	(\$18,417)
Courthouse Restoration Fund	\$0	\$150,199	(\$150,199)
Waterline Replacement Fund	\$0	\$102,879	(\$102,879)

2000			
Fund	Appropriations	Budgetary Expenditures	Variance
Motor Vehicle License Fund	\$8,190	\$8,397	(\$207)
Waterline Replacement Fund	\$0	\$374,799	(\$374,799)

Contrary to Ohio law, appropriations exceeded estimated resources in the following funds and amounts:

2001			
Fund	Estimated Resources	Appropriations	Variance
General Fund	\$150,862	\$184,626	(\$33,764)
Mayor's Court Computer Fund	\$4,995	\$5,192	(\$197)
Sewer Fund	\$545,924	\$570,873	(\$24,949)

2000			
Fund	Estimated Resources	Appropriations	Variance
State Highway Fund	\$2,919	\$3,868	(\$949)
Motor Vehicle License Tax Fund	\$19,064	\$20,057	(\$993)
Mayor's Court Computer Fund	\$957	\$5,192	(\$4,235)

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Compliance and Accountability (Continued):

Contrary to Ohio law, a separate fund was not established for the COPS Grant. Each subdivision is required to establish a special fund for each class of revenues derived from a source other than general property taxes, which the law requires to be used for a particular purpose.

The Sanitary System Revenue Bond Agreement dated July 21, 1998 requires the Village Clerk-Treasurer to create and allocate sewer system revenues to a Sewer System Debt Service Fund and a Sewer System Reserve Fund. The Village established these funds but did not make the required allocations to them.

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding 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, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer System Mortgage Revenue Bonds, Series 1998B	\$1,110,000	4.500%
Sanitary Sewer System Mortgage Revenue Bonds, Series 1998A	203,000	6.000%
Ohio Water Development Authority Loan	246,315	2.000%
Ohio Public Works Commission Loan	42,949	0.000%
Sewer System Mortgage Revenue Bonds 1964 Series	23,154	3.625%
Promissory Note - Courthouse Renovation	36,066	3.600%
Total	<u>\$1,661,484</u>	

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEBT (Continued)

Sanitary Sewer System Mortgage Revenue Bonds were issued August 28, 1998 for the purpose of paying a portion of the costs of improving the sanitary sewer system. The Village has agreed to set utility rates sufficient to cover debt service requirements.

The Ohio Water Development Authority (OWDA) loan relates to the waterline replacement project that was mandated by the Ohio Environmental Protection Agency. The total amount disbursed was \$258,464 in a loan for this project. The loan will be repaid with the proceeds of water 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.

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 the 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 sewage treatment plant in 1964. Proceeds of utility revenues are used to retire the debt. The required principal and interest payments are made monthly.

The Village issued a \$36,066 promissory note on October 30, 2001, to renovate the Courthouse. Principal and interest payments are made from the Courthouse Restoration Fund.

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

	Sanitary System 1998B Bonds	Sanitary System 1998A Bonds	OWDA Loan	OPWC Loan	Sanitary System 1964 Bonds	Promissory Note Courthouse Renovation
Year ending December 31:						
2002	\$80,950	\$15,135	\$11,766	\$3,304	\$11,798	\$36,660
2003	80,555	14,865	11,766	3,304	11,399	
2004	80,115	14,595	11,766	3,304		
2005	80,630	14,325	11,766	3,304		
2006	80,055	15,055	11,766	3,304		
Subsequent	1,771,540	323,345	223,553	26,428		
Total	<u>\$2,173,845</u>	<u>\$397,320</u>	<u>\$282,383</u>	<u>\$42,948</u>	<u>\$23,197</u>	<u>\$36,660</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.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, PFDPF participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for the periods January 1, 2001 through December 31, 2001 and January 1, 2000 through June 30, 2000. For the period July 1, 2000 through December 31, 2000, PERS temporarily reduced the employer's contribution rate to 8.13% of participants' gross salaries. The Village has paid all contributions required through December 31, 2001.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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

8. DEBT SERVICE TRUSTEED FUNDS

The Village's 1964 Series Sanitary Sewer System Mortgage Revenue Bonds agreement required the Village to establish a Debt Service Fund along with a Bond Reserve Account to be maintained by a custodian bank. At December 31, 2001, the custodian held \$60,974 in the Sewer System Depreciation Fund and \$11,598 in the Bond Reserve Account. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.



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**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, 2001 and 2000, and have issued our report thereon dated November 13, 2002. 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 *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 2001-31064-001 through 2001-31064-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 13, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 judgment, 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 2001-31064-002, 2001-31064-003 and items 2001-31064-007 through 2001-31064-009.

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 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 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 2001-31064-007 and 2001-31064-009 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 November 13, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 13, 2002

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-31064-001

Material Noncompliance Citation - Finding for Recovery

An analysis of Mayor's Court transactions indicated checks were issued from the Mayor's Court checking account for "Cash" by Deborah M. Snider, former Mayor's Court Clerk, for the purpose of having a change fund when collecting Mayor's Court monies. Of the \$62.00 cash from these three checks, only \$20.00, was subsequently deposited in the Mayor's Court checking account. The remaining \$42.00 cash from these checks represents monies collected but unaccounted for.

Our analysis also indicated that total receipts recorded in the Mayor's Court cashbook exceeded the amounts deposited in the Mayor's Court checking account by \$51.00. Furthermore, receipts recorded in the individual case jackets exceeded the amounts recorded in the Mayor's Court cashbook and deposited in the Mayor's Court checking account by \$617.72.

Deborah M. Snider served as Clerk of Mayor's Court during the time period in which these discrepancies occurred.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code §117.28, a finding for recovery for public monies collected but unaccounted for is hereby issued against Deborah M. Snider, former Village of Somerset Mayor's Court Clerk, and her surety, the Ohio Farmers Insurance Company, jointly and severally, in the amount of \$710.72, in favor of the Village of Somerset.

FINDING NUMBER 2001-31064-002

Material Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.41(D), states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation 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. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides two exceptions to the above requirements:

Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, 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 the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Village Council, if such expenditure is otherwise valid.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31064-002 (Continued)

Material Noncompliance Citation and Reportable Condition (Continued)

Ohio Rev. Code Section 5705.41(D) (Continued)

Liabilities, contracts, and open purchase commitments were not certified by the Clerk-Treasurer prior to the obligations being incurred and Then and Now Certificates were not utilized.

We recommend that liabilities, contracts, and open purchase commitments be certified by the Village Clerk-Treasurer in accordance with Ohio Rev. Code § 5705.41(D). We recommend these certifications be recorded on purchase orders and posted to the appropriations ledger when issued.

FINDING NUMBER 2001-31064-003

Material Noncompliance Citation and Reportable Condition

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.

During 2000 and 2001, 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 complying with the grant restrictions.

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 Village management agrees have been made to the financial statements in order to properly account for COPS Grant activity in a Special Revenue Fund. All receipts for the COPS Grant have been posted to the Intergovernmental Receipts account.

FINDING NUMBER 2001-31064-004

Material 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 2001:

<u>Fund</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
DUI Education Fund	\$1,569	\$3,938	(\$2,369)
COPS Grant Fund		\$18,417	(\$18,417)
Courthouse Restoration Fund		\$150,199	(\$150,199)
Waterline Replacement Fund		\$102,879	(\$102,879)

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

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

FINDING NUMBER 2001-31064-004(Continued)

Material Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(B) (Continued)

The following funds had expenditures in excess of appropriations in 2000:

Fund	Appropriations	Budgetary Expenditures	Variance
Motor Vehicle License Fund	\$8,190	\$8,397	(\$207)
Waterline Replacement Fund		\$374,799	(\$374,799)

The Village Clerk-Treasurer should deny payment requests exceeding appropriations. The Village Clerk-Treasurer may request Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2001-31064-005

Material Noncompliance Citation

Ohio Rev. Code Section 5705.39, states that total appropriations from each fund shall 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 as follows:

2001

Fund	Estimated Resources	Appropriations	Variance
General Fund	\$150,862	\$184,626	(\$33,764)
Mayor's Court Computer Fund	\$4,995	\$5,192	(\$197)
Sewer Fund	\$545,924	\$570,873	(\$24,949)

2000

Fund	Estimated Resources	Appropriations	Variance
State Highway Fund	\$2,919	\$3,868	(\$949)
Motor Vehicle License Tax Fund	\$19,064	\$20,057	(\$993)
Mayor's Court Computer Fund	\$957	\$5,192	(\$4,235)

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31064-005 (Continued)

Material Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.39 (Continued)

Prior to Council authorizing the original appropriations or approving any amendments, we recommend Council compare proposed appropriations with the amounts reflected on the (Amended) Certificate of Estimated Resources to ensure that appropriations will not exceed the Village's estimated resources. Since appropriation measures do not become effective until the County Auditor files a certificate that appropriations do not exceed estimated resources, Village management should not order any expenditure of money until the County Auditor certifies that appropriations do not exceed estimated resources for each Village fund.

FINDING NUMBER 2001-31064-006

Material Noncompliance Citation

Village of Somerset Ordinance No. 98-6, authorized the Issuance of Sanitary Sewer System Revenue Bonds (July 21, 1998) in the aggregate amount of \$1,412,000 with certain provisions. Section 8 of the Ordinance required the Village 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. During 2000, the Village Clerk-Treasurer established a Sewer System Debt Service Fund and a Sewer System Reserve Fund. However, no activity occurred within these funds for either 2000 or 2001.

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 payments of 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;
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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31064-006 (Continued)

Material Noncompliance Citation (Continued)

Village of Somerset Ordinance No. 98-6 (Continued)

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.

Even though a Sewer System Debt Service Fund was established, the Village failed to make the proper allocations to, and subsequent principal and interest payments from, the Sewer System Debt Service Fund as required by item three above. Payments of principal and interest were made from the Sewer Revenue Fund rather than from the Sewer System Debt Service Fund.

Even though a Sewer System Reserve Fund was established, the Village failed to make the proper allocations to it from the Sewer System Revenue Fund as required by item five above.

Although there was no net effect on the combined enterprise fund balances at December 31, 2000 and 2001 as a result of this noncompliance, adjustments were necessary to be made to individual debt funds in order to demonstrate compliance with the debt covenant. These adjustments with which Village management agrees have been made to the individual enterprise fund balances at December 31, 2001 to reflect the proper handling of these transactions.

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 of 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 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 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.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

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

FINDING NUMBER 2001-31064-007

Material Weakness

Our review of the reconciliation process and posting procedures indicated the following weaknesses:

- Monthly financial reports, including budget to actual statements, were not submitted to or approved by Village Council. Without financial reports, Village Council may make uninformed decisions and cannot adequately monitor Village operations.
- The Village Clerk-Treasurer did not prepare bank reconciliations for eight months during 2000 for both the regular and payroll checking accounts. Bank reconciliations were not prepared for the Mayor's Court checking account during 2000 and 2001. Reconciliations are an effective tool to help management determine whether errors or irregularities have occurred.
- Numerous manual checks were written during 2000 and 2001. When posting these checks to the system, certain checks were not properly posted or not posted at all. Check numbers in the accounting system did not correspond to actual check numbers for certain checks. In addition, the Village Clerk-Treasurer posted disbursements and receipts a month or two after transactions occurred. Issuance of manual checks on a regular basis could subject the Village to additional risk of unauthorized transactions. Without timely posting of financial transactions, reconciliations are difficult and errors and irregularities are more likely to occur and go undetected.
- During four months of 2001, the Village could neither locate, nor prompt the accounting system to generate, the revenue history report, the budget history report and the fund report.

As a result, we performed reconciliations of financial activity per the bank statements to financial activity recorded in the Village's books for each month to determine the proper financial activity to report for 2000 and 2001. Receipts and expenditures were misstated and adjustments were necessary to properly reflect the transactions involved. As of the date of this report, adjustments with which Village management agrees have been posted to the Village's books and are reflected in the accompanying financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

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

FINDING NUMBER 2001-31064-007 (Continued)

Material Weakness (Continued)

The adjustments had the following effect on the Village's fund balances at December 31, 2001:

Fund	Increase/ (Decrease) Fund Balance
General Fund	(\$9,936)
Street Fund	(\$1,492)
State Highway Fund	(\$80)
Police Fund	(\$595)
Motor Vehicle License Fund	(\$641)
Mayor's Court Computer Fund	(\$9)
DUI Education Fund	(\$1,645)
COPS Grant Fund	\$11,797
Courthouse Restoration Fund	\$1,077
Water Fund	\$6,935
Sewer Fund	(\$4,012)
Waterline Replacement Fund	(\$6,912)
Mayor's Court Fund	\$77

We recommend the following controls be implemented:

- Monthly financial reports, including budget to actual statements, should be reviewed by Village Council and approved in the minute record.
- The Village Clerk-Treasurer should reconcile each account on a monthly basis. Reconciling items should be documented and errors corrected in a timely manner. Village Council members should review and initial the reconciliations indicating their approval. Transactions should be posted in a timely manner.
- Manual checks should be issued in rare instances and not as a part of normal disbursement procedures. Check numbers from checks issued should correspond to those entered in the accounting system.
- Procedures should be implemented to maintain monthly reports on file to assure compliance with records retention laws.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

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

FINDING NUMBER 2001-31064-008

Reportable Condition

Employee time sheets were not initialed and dated to indicate a supervisory review had been performed. Time sheets not being approved for all employees could result in improper compensation being made for actual hours worked.

Supervisors should review employee time sheets to determine their accuracy and then initial and date the time sheets to document supervisory approval. Supervisor time sheets should be approved by the Mayor in a similar manner.

FINDING NUMBER 2001-31064-009

Material Weakness

The Village maintained a Courthouse Restoration bank account for the Court House Restoration project. The Village received grant monies, proceeds of a note, as well as other miscellaneous revenues for the project. The activity in the account was not maintained on the Village's accounting system.

As a result, the financial activity of the Village was understated on the annual financial report. The audited statements reflect an adjustment to include this cash and related activity.

We recommend the Village establish a Capital Projects Fund for Courthouse Restoration with the approval of the Auditor of State according to Ohio Rev. Code Section 5705.12.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1999-31064-001	Noncompliance with Ohio Rev. Code Section 5705.41(D) for obtaining the fiscal officer's certification before incurring a commitment.	No.	Not Corrected: This is repeated in the Schedule of Findings as item 2001-31064-002.
1999-31064-002	Noncompliance with Ohio Rev. Code Section 5705.41(B) for expenditures in excess of appropriations.	No.	Not Corrected: This is repeated in the Schedule of Findings as item 2001-31064-004.
1999-31064-003	Noncompliance with Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources in several funds.	No.	Not Corrected: This is repeated in the Schedule of Findings as item 2001-31064-005.
1999-31064-004	Noncompliance with Ohio Rev. Code Section 5705.09(F) for crediting monies designated as COPS Grant to the general fund.	No.	Repeated in the Schedule of Findings as item 2001-31064-003.
1999-31064-005	Noncompliance with the Village of Somerset Ordinance No. 98-6 Section 8 for not establishing Sewer System Debt Funds and making proper allocations.	No.	Partially Corrected: Funds were established but proper allocations were not made. See Schedule of Findings item 2001-31064-006.
1999-31064-006	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-02-(D) (2) for not posting budgeted and actual receipts to the receipts journal.	No.	Partially Corrected: This is repeated in the Schedule of Findings as item 2001-31064-007.
1999-31064-007	Failure to perform monthly bank reconciliations.	No.	Repeated in the Schedule of Findings as item 20001-31064-007.
1999-31064-008	Failure to establish an Issue II Project Fund.	Fully Corrected.	
1999-31064-009	Failure to review payroll time sheets.	No.	Repeated in the Schedule of Findings as item 2001-31064-008.
1999-31064-0010	Failure to maintain leave records.	Fully Corrected.	



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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 10, 2002**