



**Auditor of State
Betty Montgomery**

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Somerset Township
Belmont County
56783 Somerton Highway
Barnesville, Ohio 43713

To the Board of Trustees:

We have audited the accompanying financial statements of Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Township'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.

The Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Township 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Somerset Township, Belmont County, as of December 31, 2003 and 2002, 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 July 6, 2004, on our consideration of the Township'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 management, the Board of Trustees and other officials authorized to receive this report under Section 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 6, 2004

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Fiduciary Funds</u> | |
| Cash Receipts: | | | | |
| Local Taxes | \$18,971 | \$31,796 | \$ | \$50,767 |
| Intergovernmental | 61,741 | 108,536 | | 170,277 |
| Earnings on Investments | 19 | 39 | 81 | 139 |
| Other Revenue | 2,310 | 720 | | 3,030 |
| Total Cash Receipts | <u>83,041</u> | <u>141,091</u> | <u>81</u> | <u>224,213</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 41,976 | 8,755 | | 50,731 |
| Public Works | 16,646 | 111,248 | | 127,894 |
| Health | 5,349 | | | 5,349 |
| Conservation - Recreation | 4,000 | | | 4,000 |
| Capital Outlay | 58,532 | 3,723 | | 62,255 |
| Total Cash Disbursements | <u>126,503</u> | <u>123,726</u> | <u>0</u> | <u>250,229</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | <u>(43,462)</u> | <u>17,365</u> | <u>81</u> | <u>(26,016)</u> |
| Other Financing Receipts: | | | | |
| Promissory Note Proceeds | 40,000 | 0 | 0 | 40,000 |
| Total Other Financing Receipts | <u>40,000</u> | <u>0</u> | <u>0</u> | <u>40,000</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements | <u>(3,462)</u> | <u>17,365</u> | <u>81</u> | <u>13,984</u> |
| Fund Cash Balances, January 1 | 3,523 | 15,267 | 7,096 | 25,886 |
| Fund Cash Balances, December 31 | <u><u>\$61</u></u> | <u><u>\$32,632</u></u> | <u><u>\$7,177</u></u> | <u><u>\$39,870</u></u> |
| Reserve for Encumbrances, December 31 | <u>\$1,268</u> | <u>\$901</u> | <u>\$0</u> | <u>\$2,169</u> |

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

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

| | <u>Governmental Fund Types</u> | | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Fiduciary Funds</u> | |
| Cash Receipts: | | | | | |
| Local Taxes | \$18,852 | \$34,067 | \$ | \$ | \$52,919 |
| Intergovernmental | 73,890 | 73,180 | | | 147,070 |
| Earnings on Investments | 44 | 88 | | 297 | 429 |
| Other Revenue | 3,094 | 1,406 | | | 4,500 |
| | <u>95,880</u> | <u>108,741</u> | <u>0</u> | <u>297</u> | <u>204,918</u> |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 48,053 | 10,685 | | | 58,738 |
| Public Works | 16,014 | 90,913 | | | 106,927 |
| Health | 11,093 | | | | 11,093 |
| Conservation - Recreation | 1,124 | | | | 1,124 |
| Debt Service: | | | | | |
| Redemption of Principal | 23,527 | | 5,910 | | 29,437 |
| Interest and Fiscal Charges | 988 | | 593 | | 1,581 |
| Capital Outlay | 3,075 | | | | 3,075 |
| | <u>103,874</u> | <u>101,598</u> | <u>6,503</u> | <u>0</u> | <u>211,975</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | <u>(7,994)</u> | <u>7,143</u> | <u>(6,503)</u> | <u>297</u> | <u>(7,057)</u> |
| Fund Cash Balances, January 1 | <u>11,517</u> | <u>8,124</u> | <u>6,503</u> | <u>6,799</u> | <u>32,943</u> |
| Fund Cash Balances, December 31 | <u>\$3,523</u> | <u>\$15,267</u> | <u>\$0</u> | <u>\$7,096</u> | <u>\$25,886</u> |
| Reserve for Encumbrances, December 31 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

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

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Somerset Township, Belmont County (the Township), 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 Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Somerset Volunteer Fire Department to provide fire services.

The Township's management believes these financial statements present all activities for which the Township 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

Certificates of deposit are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is restricted as to use. The Township 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 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 Township had the following significant Special Revenue Funds:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining and repairing Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money for constructing, maintaining and repairing Township roads.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Miscellaneous Special Revenue Fund - This fund receives Federal Emergency Management Agency (FEMA) grant monies to pay for disaster assistance for snow removal.

3. Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

Note Retirement Fund - This fund is used to record debt principal and interest payments.

4. Fiduciary Funds (Trust Funds)

These funds are used to account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Funds:

Cemetery Trust Funds – These funds receive interest earnings used for the care of Township cemeteries.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Township's basis of accounting.

2. EQUITY IN POOLED CASH

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

| | 2003 | 2002 |
|-------------------------|----------|----------|
| Demand deposits | \$35,684 | \$21,720 |
| Certificates of deposit | 4,186 | 4,166 |
| Total deposits | \$39,870 | \$25,886 |

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

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

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$83,310 | \$123,041 | \$39,731 |
| Special Revenue | 97,044 | 141,091 | 44,047 |
| Fiduciary | 200 | 81 | (119) |
| Total | \$180,554 | \$264,213 | \$83,659 |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$100,219 | \$127,771 | (\$27,552) |
| Special Revenue | 133,080 | 124,627 | 8,453 |
| Total | \$233,299 | \$252,398 | (\$19,099) |

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

| 2002 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$83,310 | \$95,880 | \$12,570 |
| Special Revenue | 82,044 | 108,741 | 26,697 |
| Debt Service | 15,402 | 0 | (15,402) |
| Fiduciary | 318 | 297 | (21) |
| Total | \$181,074 | \$204,918 | \$23,844 |

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$106,062 | \$103,874 | \$2,188 |
| Special Revenue | 108,331 | 101,598 | 6,733 |
| Debt Service | 21,905 | 6,503 | 15,402 |
| Fiduciary | 1,000 | 0 | 1,000 |
| Total | \$237,298 | \$211,975 | \$25,323 |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Capital Outlay-Machinery, Equipment and Furniture line item by \$36,000 for the year ended December 31, 2003.

Also contrary to Ohio law, appropriations plus encumbrances exceeded estimated resources in the General Fund, Road and Bridge Fund and Miscellaneous Special Revenue Fund by \$13,386, \$4,676, \$28,000, respectively, at December 31, 2003, and in the General Fund, Motor Vehicle License Tax Fund, Gasoline Tax Fund, and Road and Bridge Fund by \$11,235, \$2,019, \$918 and \$15,226, respectively, at December 31, 2002.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. 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 Township.

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 Township.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2003, was as follows:

| | Principal | Interest Rate |
|-----------------|-----------|---------------|
| Promissory Note | \$40,000 | 5.65% |

The promissory note was issued to finance the purchase of a new case loader to be used for Township road maintenance. The note is collateralized by the case loader and the Township's taxing authority.

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

| | Promissory Note |
|--------------------------|--------------------|
| Year ending December 31: | |
| 2004 | \$11,202 |
| 2005 | 11,202 |
| 2006 | 11,202 |
| 2007 | 11,204 |
| Total | \$44,810 |

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides 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 2003 and 2002, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

Casualty Coverage

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

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

Property Coverage

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

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

Financial Position

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

| <u>Casualty Coverage</u> | <u>2003</u> | <u>2002</u> |
|--------------------------|---------------------|---------------------|
| Assets | \$27,792,223 | \$23,757,036 |
| Liabilities | (11,791,300) | (9,197,512) |
| Retained earnings | <u>\$16,000,923</u> | <u>\$14,559,524</u> |

| <u>Property Coverage</u> | <u>2003</u> | <u>2002</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$6,791,060 | \$6,596,996 |
| Liabilities | (750,956) | (1,204,326) |
| Retained earnings | <u>\$6,040,104</u> | <u>\$5,392,670</u> |

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

8. CONTINGENT LIABILITIES

Grants

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.

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Auditor of State Betty Montgomery

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

Somerset Township
Belmont County
56783 Somerton Highway
Barnesville, Ohio 43713

To the Board of Trustees:

We have audited the accompanying financial statements of Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 6, 2004, wherein we noted that the Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township'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 directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the Township's management in a separate letter dated July 6, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township'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 Township's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-004 and 2003-005.

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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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are 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 the Township's management in a separate letter dated July 6, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 6, 2004

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides that appropriations from each fund shall not exceed the estimated revenue plus unencumbered balances available for expenditure as certified by the county budget commission.

At December 31, 2003, the following funds had appropriations in excess of estimated revenue plus unencumbered balances:

| | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Excess</u> |
|------------------------------------|--------------------------------|-----------------------|---------------|
| General Fund | \$86,833 | \$100,219 | (\$13,386) |
| Road and Bridge Fund | 33,424 | 38,100 | (4,676) |
| Miscellaneous Special Revenue Fund | 0 | 28,000 | (28,000) |

At December 31, 2002, the following funds had appropriations in excess of estimated revenue plus unencumbered balances:

| | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Excess</u> |
|--------------------------------|--------------------------------|-----------------------|---------------|
| General Fund | \$94,827 | \$106,062 | (\$11,235) |
| Motor Vehicle License Tax Fund | 17,137 | 19,156 | (2,019) |
| Gasoline Tax Fund | 49,313 | 50,231 | (918) |
| Road and Bridge Fund | 14,786 | 30,012 | (15,226) |

We recommend the Township Clerk develop internal control procedures to ensure appropriations from each fund do not exceed the estimated revenue as certified by the county budget commission.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) allows no subdivision or taxing unit to expend money unless it has been appropriated.

The following fund, function, and object had expenditures exceeding appropriations as of December 31, 2003, due to an audit adjustment:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|----------------------------------|-----------------------|---------------------|---------------|
| General Fund | | | |
| Capital Outlay | | | |
| Machinery, Equipment & Furniture | \$16,000 | \$52,000 | (\$36,000) |

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

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

**FINDING NUMBER 2003-002
(Continued)**

Noncompliance Citation (Continued)

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

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

In 2003, the Township obtained a promissory note for the purchase of a case loader. The Township did not obtain an increased amended certificate for the note proceeds which resulted in the above violation of expenditures exceeding appropriations.

We recommend the Township Trustees obtain an increased amended certificate in the amount of the promissory note proceeds in the future. In 2003, the Township Trustees issued a promissory note for the purchase of a case loader. The note proceeds should have been recorded to the receipt ledger and the expenditure for the case loader should have been recorded to the appropriation ledger as capital outlay.

The Township Clerk did not post the note proceeds or the expenditure of the case loader which caused receipts and expenditures to be understated and required audit adjustments to be posted to the financial statements.

We recommend the Township Clerk develop internal control procedures to ensure that note proceeds and applicable expenditures are recorded on the Township's ledgers and financial statements. We further recommend that the Township Clerk deny payment requests exceeding appropriations. The Township Clerk may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

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

**FINDING NUMBER 2003-003
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(D)(1) (Continued)

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificates – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that she is completing her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Sixty-two percent of expenditures tested were not certified by the Township Clerk and were not encumbered until the time of payment. Also, the Township Clerk did not execute a “then and now” certificate for these expenditures not properly certified.

We recommend the Township Clerk ensure that all expenditures are properly encumbered at the time the obligation is incurred and not at the time the actual payment is made and if prior certification is not possible that the Township utilize the “then and now” certificate option.

The Township Clerk must also assure that sufficient cash is on hand or in the process of collection to the credit of an appropriate fund to satisfy purchase commitments before certifying them. If sufficient cash is not on hand or in the process of collection, the Township Clerk should not certify the commitment. This control will prevent deficit fund balances.

FINDING NUMBER 2003-004

Reportable Condition

Receipts and expenditures should be posted to the fund and line item accounts as established by the Ohio Administrative Code.

Federal Emergency Management Agency grant receipts, Nature Works grant receipts, deregulation receipts, homestead and rollback receipts, and note principal and interest payments were not posted into the correct receipt or appropriation classification, based on the source of receipt and nature of disbursement. As a result, reclassifications to the accompanying financial statements were necessary.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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

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

**FINDING NUMBER 2003-004
(Continued)**

Reportable Condition (Continued)

We recommend the Township Clerk consult the Ohio Administrative Code when monies are received and disbursed, to help ensure these transactions are posted to the correct receipt and appropriations classifications.

FINDING NUMBER 2003-005

Reportable Condition

Estimated receipts as approved by the County Budget Commission should be entered into the Township's computer system.

The Township Clerk did not accurately post estimated receipts to the Uniform Accounting Network receipts ledger. Because the information posted to the ledgers was inaccurate, Township management was unable to effectively monitor budget versus actual activity. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present estimated receipts as certified by the County Budget Commission.

To help ensure more useful comparisons of budget versus actual activity, we recommend the Township Clerk post estimated receipts to the computer system as certified by the County Budget Commission.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|---|
| 2001-41007-001 | Ohio Rev. Code Section 5705.09 requires a subdivision to establish a special fund for each class of revenue. | Yes | N/A. |
| 2001-41007-002 | Ohio Rev. Code Section 5705.39 provides that appropriations from each fund shall not exceed the estimated revenue plus unencumbered balances available for expenditure. | No | Reissued as finding number 2003-001. |
| 2001-41007-003 | Ohio Rev. Code Section 5705.41(B) allows no subdivision to expend money unless it has been properly appropriated. | No | Reissued as finding number 2003-002. |
| 2001-41007-004 | Ohio Rev. Code Section 5705.41(D) states no orders or contracts are to be made unless there is attached a certificate of the fiscal officer that the amount required to meet the obligation has been appropriated. | No | Reissued as finding number 2003-003. |
| 2001-41007-005 | The Township did not post receipts and expenditures to the correct line item accounts. | No | Reissued as finding number 2003-004. |
| 2001-41007-006 | Estimated receipts as approved by the County Budget Commission were not entered into the Township's computer system. | No | Reissued as finding number 2003-005. |



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SOMERSET TOWNSHIP

BELMONT 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
AUGUST 26, 2004**