



OHIO AUDITOR OF STATE
KEITH FABER



**VILLAGE OF SOMERSET
PERRY COUNTY
DECEMBER 31, 2017 AND 2016**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, and the respective changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Somerset, Perry County, Ohio, as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 11, for 2016, the Village restated the balances of the General and Capital Projects Fund as the result of prior adjustments which were incorrectly made to the Village's balances. In addition, as discussed in Notes 11 and 12 of the financial statements for the years ended December 31, 2017 and 2016, the Village is experiencing financial difficulties resulting in negative fund balances in the General Fund at December 31, 2017 and the Police Department Levy Fund at December 31, 2016. Management's plan in regards to these financial difficulties is described in the aforementioned notes to the financial statements. These matters did not affect our opinion on these financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

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

Keith Faber
Auditor of State
Columbus, Ohio

March 25, 2019

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**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$77,915	\$95,674	\$0	\$173,589
Intergovernmental	86,115	86,189	764,229	936,533
Charges for Services	2,765	84	0	2,849
Fines, Licenses and Permits	8,678	3,754	0	12,432
Earnings on Investments	2,711	0	0	2,711
Miscellaneous	17,489	7,875	0	25,364
<i>Total Cash Receipts</i>	<u>195,673</u>	<u>193,576</u>	<u>764,229</u>	<u>1,153,478</u>
Cash Disbursements				
Current:				
Security of Persons and Property	9,532	119,638	0	129,170
Leisure Time Activities	2,242	0	0	2,242
Transportation	0	95,790	0	95,790
General Government	193,706	2,838	0	196,544
Capital Outlay	30,000	13,000	832,818	875,818
Debt Service:				
Principal Retirement	993	0	0	993
Interest and Fiscal Charges	813	0	0	813
<i>Total Cash Disbursements</i>	<u>237,286</u>	<u>231,266</u>	<u>832,818</u>	<u>1,301,370</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(41,613)</u>	<u>(37,690)</u>	<u>(68,589)</u>	<u>(147,892)</u>
Other Financing Receipts (Disbursements)				
Loan Proceeds	30,000	13,000	19,853	62,853
Transfers In	0	75,355	0	75,355
Transfers Out	(75,000)	(355)	0	(75,355)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(45,000)</u>	<u>88,000</u>	<u>19,853</u>	<u>62,853</u>
<i>Net Change in Fund Cash Balances</i>	(86,613)	50,310	(48,736)	(85,039)
<i>Fund Cash Balances, January 1</i>	<u>73,784</u>	<u>76,319</u>	<u>72,872</u>	<u>222,975</u>
Fund Cash Balances, December 31				
Restricted	0	126,629	24,136	150,765
Unassigned (Deficit)	(12,829)	0	0	(12,829)
<i>Fund Cash Balances, December 31</i>	<u>(\$12,829)</u>	<u>\$126,629</u>	<u>\$24,136</u>	<u>\$137,936</u>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$728,232
Miscellaneous	3,838
	732,070
<i>Total Operating Cash Receipts</i>	
Operating Cash Disbursements	
Personal Services	191,184
Fringe Benefits	76,740
Contractual Services	151,437
Supplies and Materials	93,267
	512,628
<i>Total Operating Cash Disbursements</i>	
<i>Operating Income</i>	219,442
Non-Operating Receipts (Disbursements)	
Intergovernmental	177,686
Loan Proceeds	592,075
Capital Outlay	(565,717)
Principal Retirement	(310,205)
Interest and Other Fiscal Charges	(61,740)
	(167,901)
<i>Total Non-Operating Receipts (Disbursements)</i>	
<i>Net Change in Fund Cash Balances</i>	51,541
<i>Fund Cash Balances, January 1</i>	210,151
<i>Fund Cash Balances, December 31</i>	\$261,692

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

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

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 for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publically-elected six member Council. The Village provides general governmental services, street maintenance, police protection, and water and sewer services for its citizens.

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

B. BASIS OF ACCOUNTING

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. CASH

Investments are included in the fund cash balances. 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 maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an account entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

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

- Street Construction Maintenance & Repair Fund- This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- Police Levy Fund- This fund receives money to provide police protection services.

Capital Project Funds: These fund account for receipts restricted to acquiring or constructing major capital projects. The Village had the following significant Capital Project funds:

- Streetscape Project Fund – This fund receives loans and grants for the improvement of the Village sidewalks and streets.
- OPWC Capital Project Funds – These funds receive loans and grants for the OPWC projects for Somerset’s Emerald Necklace, Sewer System, and Water System projects.

Proprietary Fund Types:

Enterprise Funds: To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing certain goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

The Village has the following significant Enterprise Funds:

- Sewer Fund- This fund receives loans and grant for the planning construction of a wastewater collection system as well as user fees from residents for the operation of the system.
- Water Fund- This fund receives loans and grant for the planning construction of a water distribution system as well as user fees for the operation of the system.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually. A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

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 Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

3. Encumbrances

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

A summary of 2017 budgetary activity appears in Note 5.

F. FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources.

1. Nonspendable- The Village classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.
2. Restricted- Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
3. Committed- The Village Council can commit amounts via formal action (resolution or ordinance). The Village must adhere to these commitments unless the Council amends the resolution or ordinance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. FUND BALANCE – (Continued)

4. Assigned- Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Village Council.
5. Unassigned- Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. PROPERTY, PLANT AND EQUIPMENT

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

H. 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 CASH EQUIVALENTS

The Village maintains a cash and investment 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>2017</u>
Demand Deposits	\$134,352
Certificate of Deposit	<u>265,276</u>
Total	<u>\$399,628</u>

Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or; collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

3. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation.

Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31.

If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

4. COMPLIANCE

Contrary to Ohio law, at December 31, 2017, the General Fund had a cash deficit balance of \$12,829.

5. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2017 is as follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$115,360	\$225,673	\$110,313
Special Revenue	235,080	281,931	46,851
Capital Projects	890,700	784,082	(106,618)
Enterprise	712,250	1,501,831	789,581
Total	\$1,953,390	\$2,793,517	\$840,127

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$235,902	\$312,286	(\$76,384)
Special Revenue	212,955	231,621	(18,666)
Capital Projects	890,700	832,818	57,882
Enterprise	1,869,761	1,450,290	419,471
Total	\$3,209,318	\$2,827,015	\$382,303

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

5. BUDGETARY ACTIVITY – (Continued)

Contrary to Ohio law, appropriations exceeded total estimated resources by \$32,835, \$5,580, \$900, \$646,775 and \$518,680 for the General, Police Levy, Police K9, Water Plant/Line Improvements, and Sewer Plant/Line Improvements Funds, respectively. In addition, contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General, Street Construction Maintenance and Repair and Policy Levy Funds by \$76,384, \$3,789 and \$20,408, respectively.

6. RETIREMENT SYSTEM

The Village's police officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

For the year ending December 31, 2017, OP&F participants contributed 12.25%, the Village contributed to OP&F an amount equal to 19.5 of full-time police members' wages. For 2017, OPERS members contributed 10% of their gross wages while the Village contributed 14% of covered payroll. The Village has paid all contributions required through December 31, 2017.

7. POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017. OP&F contributes 0.5 percent to fund these benefits.

8. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Public Officials Liability
- Commercial Vehicles
- Law Enforcement Liability

There have been no significant reductions in insurance coverage from the prior fiscal year and settled claims have not exceeded this commercial coverage in any of the last three years.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

9. DEBT

Debt outstanding at December 31, 2017 is as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bond, Series A	\$76,000	4.50%
Sewer Mortgage Revenue Bond, Series B	\$415,000	4.50%
OWDA #3311	\$86,585	2.00%
OWDA #3891	\$20,940	1.50%
OWDA #4028	\$1,084,104	2.00%
OWDA #5951	\$412,280	2.00%
OWDA #7235	\$101,070	2.96%
OWDA #7406	\$455,946	0.00%
OPWC #CT59D	12,563	0.00%
OPWC #CT56Q	94,072	0.00%
Peoples National Bank Loan - Land	29,007	4.25%
North Valley Bank Loan - Police Cruisers	13,000	4.00%
Total	<u>\$2,800,567</u>	

The Sewer Mortgage Revenue Bonds were issued in 1998 to fund the Sanitary Sewer System and will be redeemed in installments ending in 2023.

The OWDA and OPWC loans relate to EPA mandated water and sewer construction projects. They are being repaid semi-annual installments. The amortization of OWDA loan #7235, #7406, and OPWC #CT56Q have not been set and are not included in the OWDA and OPWC amounts below.

The Peoples National Bank Loan was issued in 2017 for \$30,000 and was used to purchase 3 acres of land within the Village. The Loan will be paid from the General Fund in monthly payments of \$226. It will be paid off in 2032. The loan is collateralized by the land. The North Valley Bank Loan was issued in 2017 for \$13,000 and was used to purchase 2 used police cruisers. This loan was paid off in April 2018.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2017

9. DEBT – (Continued)

Principal and interest requirements for loans outstanding at December 31, 2016 are as follows:

Year Ending December 31:	Mortgage Revenue Bonds	OWDA Loans	OPWC Loans	Bank Loans
2018	\$95,095	\$108,007	\$2,405	\$16,229
2019	94,810	108,007	4,811	2,709
2020	96,390	108,007	4,811	2,709
2021	93,745	108,007	4,811	2,709
2022	96,055	108,007	4,811	2,709
2023-2027	95,095	516,502	20,704	13,544
2028-2032		481,204	15,677	11,738
2033-2037		290,977	15,679	
2038-2042		105,184	15,679	
2043-2047			15,679	
2048			1,568	
Total	<u>\$571,190</u>	<u>\$1,933,902</u>	<u>\$106,635</u>	<u>\$52,347</u>

10. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

11. FINANCIAL DIFFICULTIES

The General Fund (\$12,829) had a cash deficit balance at December 31, 2017. The Village will monitor all expenditures of this fund.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$77,291	\$91,594	\$0	\$168,885
Intergovernmental	46,652	81,358	354,901	482,911
Charges for Services	1,768	0	0	1,768
Fines, Licenses and Permits	15,955	3,223	0	19,178
Earnings on Investments	2,575	0	0	2,575
Miscellaneous	12,070	4,144	0	16,214
<i>Total Cash Receipts</i>	<u>156,311</u>	<u>180,319</u>	<u>354,901</u>	<u>691,531</u>
Cash Disbursements				
Current:				
Security of Persons and Property	10,929	186,568	0	197,497
Leisure Time Activities	2,469	0	0	2,469
Transportation	0	86,052	0	86,052
General Government	196,126	2,710	0	198,836
Capital Outlay	0	0	402,497	402,497
<i>Total Cash Disbursements</i>	<u>209,524</u>	<u>275,330</u>	<u>402,497</u>	<u>887,351</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(53,213)</u>	<u>(95,011)</u>	<u>(47,596)</u>	<u>(195,820)</u>
Other Financing Receipts (Disbursements)				
Loan Proceeds	0	0	74,219	74,219
Sale of Property	25,180	0	0	25,180
Transfers In	0	57,350	0	57,350
Transfers Out	(57,350)	0	0	(57,350)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(32,170)</u>	<u>57,350</u>	<u>74,219</u>	<u>99,399</u>
<i>Net Change in Fund Cash Balances</i>	<u>(85,383)</u>	<u>(37,661)</u>	<u>26,623</u>	<u>(96,421)</u>
<i>Fund Cash Balances, January 1 (Restated - See Note 11)</i>	<u>159,167</u>	<u>113,980</u>	<u>46,249</u>	<u>319,396</u>
Fund Cash Balances, December 31				
Restricted	0	101,053	72,872	173,925
Unassigned (Deficit)	73,784	(24,734)	0	49,050
<i>Fund Cash Balances, December 31</i>	<u>\$73,784</u>	<u>\$76,319</u>	<u>\$72,872</u>	<u>\$222,975</u>

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$702,270
Miscellaneous	<u>2,305</u>
<i>Total Operating Cash Receipts</i>	<u>704,575</u>
Operating Cash Disbursements	
Personal Services	185,360
Fringe Benefits	67,028
Contractual Services	472,308
Supplies and Materials	<u>89,034</u>
<i>Total Operating Cash Disbursements</i>	<u>813,730</u>
<i>Operating Income (Loss)</i>	<u>(109,155)</u>
Non-Operating Receipts (Disbursements)	
Intergovernmental	376,320
Loan Proceeds	141,654
Capital Outlay	(142,570)
Principal Retirement	(127,663)
Interest and Other Fiscal Charges	<u>(45,559)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>202,182</u>
<i>Net Change in Fund Cash Balances</i>	93,027
<i>Fund Cash Balances, January 1</i>	<u>117,124</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$210,151</u></u>

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

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publically-elected six member Council. The Village provides general governmental services, street maintenance, police protection, and water and sewer services for its citizens.

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

B. BASIS OF ACCOUNTING

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. CASH

Investments are included in the fund cash balances. 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 maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an account entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

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

- Street Construction Maintenance & Repair Fund- This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- Police Levy Fund- This fund receives money to provide police protection services.

Capital Project Funds: These fund account for receipts restricted to acquiring or constructing major capital projects. The Village had the following significant Capital Project funds:

- Streetscape Project Fund – This fund receives loans and grants for the improvement of the Village sidewalks and streets.
- OPWC Capital Project Funds – These funds receive loans and grants for the OPWC projects for Somerset’s Emerald Necklace, Sewer System, and Water System projects.

Proprietary Fund Types:

Enterprise Funds: To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing certain goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

The Village has the following significant Enterprise Funds:

- Sewer Fund- This fund receives loans and grant for the planning construction of a wastewater collection system as well as user fees from residents for the operation of the system.
- Water Fund- This fund receives loans and grant for the planning construction of a water distribution system as well as user fees for the operation of the system.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually. A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

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 Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

3. Encumbrances

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

A summary of 2016 budgetary activity appears in Note 5.

F. FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources.

1. Nonspendable- The Village classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.
2. Restricted- Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
3. Committed- The Village Council can commit amounts via formal action (resolution or ordinance). The Village must adhere to these commitments unless the Council amends the resolution or ordinance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. FUND BALANCE – (Continued)

4. Assigned- Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Village Council.
5. Unassigned- Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. PROPERTY, PLANT AND EQUIPMENT

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

H. 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 CASH EQUIVALENTS

The Village maintains a cash and investment 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>2016</u>
Demand Deposits	\$170,309
Certificate of Deposit	<u>262,817</u>
Total	<u>\$433,126</u>

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, (2) collateralized by securities specifically by the financial institution to the Village, or (3) collateralized by the financial institution's public entity deposit pool.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

3. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation.

Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31.

If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

4. COMPLIANCE

Contrary to Ohio law, at December 31, 2017, the Police Department Levy Fund has a cash deficit balance of \$24,734.

5. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2016 is as follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$119,920	\$181,491	\$61,571
Special Revenue	158,375	237,669	79,294
Capital Projects	288,800	429,120	140,320
Enterprise	478,850	1,222,549	743,699
Total	<u>\$1,045,945</u>	<u>\$2,070,829</u>	<u>\$1,024,884</u>

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$253,575	\$266,874	(\$13,299)
Special Revenue	294,225	275,330	18,895
Capital Projects	84,383	402,497	(318,114)
Enterprise	2,521,458	1,129,522	1,391,936
Total	<u>\$3,153,641</u>	<u>\$2,074,223</u>	<u>\$1,079,418</u>

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

5. BUDGETARY ACTIVITY – (Continued)

Contrary to Ohio law, appropriations exceeded total estimated resources by \$19,343, \$65,162, \$46,249, \$5,425 and \$83,586 for the Street Construction Maintenance and Repair, Police Levy, Streetscape ARC, Sewer Operating, and Water Debt Service Funds, respectively. In addition, contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General and Capital Projects Fund by \$13,299 and \$318,114, respectively.

6. RETIREMENT SYSTEM

The Village's police officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

For the year ending December 31, 2016, OP&F participants contributed 12.25%, the Village contributed to OP&F an amount equal to 19.5 of full-time police members' wages. For 2016, OPERS members contributed 10% of their gross wages while the Village contributed 14% of covered payroll. The Village has paid all contributions required through December 31, 2016.

7. POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2 percent during calendar year 2016. OP&F contributes 0.5 percent to fund these benefits.

8. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Public Officials Liability
- Commercial Vehicles
- Law Enforcement Liability

There have been no significant reductions in insurance coverage from the prior fiscal year and settled claims have not exceeded this commercial coverage in any of the last three years.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

9. DEBT

Debt outstanding at December 31, 2016 is as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bond, Series A	\$87,000	4.50%
Sewer Mortgage Revenue Bond, Series B	\$474,000	4.50%
OWDA #3311	\$96,470	2.00%
OWDA #3891	\$22,089	1.50%
OWDA #4028	\$1,135,379	2.00%
OWDA #5951	\$421,013	2.00%
OWDA #7235	\$82,239	2.96%
OWDA #7406	\$37,184	0.00%
OPWC #CT59D	15,076	0.00%
OPWC #CT56Q	74,219	0.00%
Total	<u><u>\$2,444,669</u></u>	

The Sewer Mortgage Revenue Bonds were issued in 1998 to fund the Sanitary Sewer System and will be redeemed in installments ending in 2023.

The OWDA and OPWC loans relate to EPA mandated water and sewer construction projects. They are being repaid semi-annual installments. The amortization of OWDA loan #5951, #7235, #7406, and OPWC #CT56Q have not been set and are not included in the OWDA and OPWC amounts below.

Principal and interest requirements for loans outstanding at December 31, 2016 are as follows:

Year Ending December 31:	Mortgage Revenue Bonds	OWDA Loans	OPWC Loans
2017	\$95,245	\$86,970	\$1,675
2018	95,095	86,970	1,675
2019	94,810	86,970	1,675
2020	96,390	86,970	1,675
2021	93,745	86,970	1,675
2022-2026	191,150	423,084	6,700
2027-2031		376,020	
2032-2035		260,999	
Total	<u><u>\$666,435</u></u>	<u><u>\$1,494,953</u></u>	<u><u>\$15,075</u></u>

10. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2016

11. PRIOR PERIOD ADJUSTMENT

During the audit of 2015 and 2014 an audit adjustment to reduce the fund balance of the General Fund and increase the balance of the Capital Projects Fund by \$50,000 was noted. However, the Village never made this adjustment because it had already been corrected by a transfer between the two funds in 2014. Therefore on the 2015 audited financial statements, the General Fund ending balance was understated and the Capital Projects Fund was overstated by \$50,000. As a result, the January 1, 2016 balance was restated as follows:

	General Fund	Capital Projects
Fund Balance December 31, 2015	\$109,167	\$96,249
Adjustment	50,000	(50,000)
Restated Fund Balance December 31, 2015	\$159,167	\$46,249

12. FINANCIAL DIFFICULTIES

The Police Department Levy Fund (\$24,734) had a cash deficit balance at December 31, 2016. The Village will monitor all expenditures of this fund.

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019 wherein we noted the Village restated the balances of its General and Capital Projects Fund for 2016. We also noted the Village is experiencing financial difficulties due to negative fund balances.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings that we consider material weaknesses. We consider Findings 2017-001 through 2017-004 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2017-001, 2017-002 and 2017-005 through 2017-008.

Village's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not subject the Village's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

March 25, 2019

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Noncompliance and Material Weakness

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically, the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

In addition, management is responsible for designing and implementing internal control policies and procedures to reasonably ensure specific financial objectives will be achieved. A sound internal control structure requires documented procedures to provide management with reasonable assurance that recorded transactions occurred and are not fictitious. In addition, a well-designed system of internal control will include monitoring of financial reports and information by management in order to compensate for any lack of segregation of duties. This should include reviewing all disbursements to ensure expenditures are proper and reviewing bank reconciliations and bank statements to ensure information is accurate.

It was discovered that former Police Chief, Jeremy Vandermark, was issued a Village credit card in order to make necessary purchases for the Village Police Department. During the period March 2013 through November 2016, the Police Department credit card was used to make purchases totaling \$4,608. These purchases included fuel, meals and car washes, which were not permitted by the Village, in addition to purchases that had no supporting documentation to substantiate their purpose.

Furthermore, Mr. Vandermark was assigned the Police Department’s K-9 unit though he was never a certified K-9 Officer or certified to work with the Village K-9. During the period September 2015 through October 2016, the Village paid \$410 in various veterinary expenditures for the Village K-9.

Finally, the Village paid \$171 to have a car radio installed in a Village police cruiser; however, the radio was actually installed in Mr. Vandermark’s daughter’s car. These items totaled \$5,189 in public monies converted or misappropriated.

On October 10, 2018, the Village received and deposited a restitution payment from the Perry County Clerk of Common Pleas Court, in the amount of \$5,189, as restitution from the former Police Chief, resulting in no remaining balance.

The Village should develop and implement a formal policy regarding Village disbursements and use of credit cards. In addition, the policy should require the Village management to review bank reconciliations, bank statements and credit card statements on a periodic basis for evidence of unauthorized transactions. These reviews should be documented on the appropriate reports and maintained on file as evidence that this review has been performed.

In addition, supporting documentation should be maintained by the Fiscal Officer for each disbursement including a voucher with the original receipt attached, and any other supporting documentation applicable to the disbursement. Disbursements should not be approved by the Fiscal Officer or Village Council unless adequate documentation is available.

Official’s Response: The Village has a new credit card policy and the Fiscal Officer is reviewing each purchase. We voided the credit card for the Mayor and Water/Sewer Departments. We only have Police Chief and Fiscal Officer cards which are managed in the office.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-002

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(D) provides in part that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

The Village inappropriately recorded homestead and rollback receipts, totaling \$13,844 and \$13,922, related to the Village's police levy in the General Fund during 2017 and 2016, respectively. Given the source of the revenue, this should have been recorded in the Police Levy Fund. Audit adjustments are reflected in the financial statements and in the accounting records correcting the misstatement.

The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities. The Village should implement controls to help ensure all transactions are reviewed to help ensure posting to the proper funds.

Official's Response: The Fiscal Officer was not aware of the homestead. She received notification from the state with the full dollar amount and posted it all to the General Fund. This has been corrected and further more will be posted correctly.

FINDING NUMBER 2017-003

Material Weakness

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

For the fiscal year ending December 31, 2017, the following misstatements were noted:

- Ohio Public Works Commission (OPWC) on-behalf-of payments, totaling \$613,979, for the Green Space Grants, Capital Improvement Grants and Capital Improvement Loan were not recorded by the Village. These receipts and disbursements should have been recorded as \$613,979 in Capital Outlay disbursements, \$594,126 in Intergovernmental receipts, and \$19,853 in Loan Proceeds within the Village's Capital Projects Funds.
- The Village did not record Ohio Water Development Authority (OWDA) loan forgiveness payments as Intergovernmental receipts and Debt Service Principal payments, in the amount of \$164,215, within the Water Plant/Line Improvements Enterprise Fund.
- OWDA loan proceeds of \$36,260 were recorded as Intergovernmental receipts rather than Loan Proceeds in the Water Plant/Line Improvements Enterprise Fund.
- The Village failed to record OWDA fees and direct payments of \$546,717 as Loan Proceeds and Capital Outlay disbursements in the Water Plant/Line Improvements Enterprise Fund.
- The Village failed to record the activity from the issuance of loans as loan proceeds, in the amounts of \$30,000 and \$13,000, in the General and Policy Levy Funds, respectively.

For the fiscal year ending December 31, 2016, the following misstatements were noted:

- A receipt from the sale of a property was recorded as Intergovernmental receipts rather than Sale of Property in the General Fund in the amount of \$25,180.

**VILLAGE OF SOMERSET
PERRY COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-003 (Continued)

Material Weakness (Continued)

- A Local Government Innovation receipt from the State was recorded as Miscellaneous receipts rather than Intergovernmental receipts in the General Fund in the amount of \$10,000.
- OPWC on-behalf-of payments, totaling \$363,627, for the Green Space Grants, Capital Improvement Grants and Capital Improvement Loan were not recorded by the Village. These receipts and disbursements should have been recorded as \$363,627 in Capital Outlay disbursements, \$289,408 in Intergovernmental receipts, and \$74,219 in Loan Proceeds.
- The Village did not record OWDA loan forgiveness payments as Intergovernmental receipts and Principal payments, in the amount of \$22,637, within the Water Plant/Line Improvements Enterprise Fund.
- OWDA loan proceeds of \$35,025 were recorded as Intergovernmental receipts rather than Loan Proceeds in the Water Plant/Line Improvements Enterprise Fund.
- The Village failed to record OWDA fees and direct payments of Loan Proceeds and Capital Outlay disbursements of \$24,796 in the Water Plant/Line Improvements Enterprise Fund.

Audit adjustments, with which management has agreed, are reflected in the accompanying financial statements. In addition to the adjustments listed above, we also identified additional unadjusted differences ranging from \$600 to \$12,167 that we have brought to the Village's attention.

Incorrect financial statement account classifications could result in inaccurate reporting or the Village's financial information.

The Fiscal Officer should refer to the Village Officer's Handbook for proper classification and take additional care in posting transactions to the Village's ledgers and annual financial report in order to ensure the Village's year-end financial statements reflect the appropriate sources and uses of the Village's receipts and disbursements.

Official's Response: The Fiscal Officer will make the necessary corrections in the future with all grants. The Fiscal Officer did not realize that since she was not making the actual payments, that she had to post them. Duly noted.

FINDING NUMBER 2017-004

Material Weakness

In our audit engagement letter, as required by AU-C § 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C § 210 paragraphs .A14 and .A16.

Sound accounting practices require accurately posting estimated receipts and appropriations to the ledgers to provide information for budget versus actual comparison and to allow Council to make informed decisions regarding budgetary matters.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

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

FINDING NUMBER 2017-004 (Continued)

Material Weakness (Continued)

The appropriation resolution and subsequent amendments establish the legal spending authority of the Village and the appropriation ledger provides the process by which the Village controls spending, it is therefore necessary the amounts appropriated by Council are precisely stated and accurately posted to the appropriation ledger.

The original certificate and amendments establish the amounts available for expenditures for the Village and the receipts ledger provides the process by which the Village controls what is available, it is therefore necessary the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.

The Village did not have procedures in place to accurately post authorized budgetary measures to the accounting system. The approved Amended Certificate of Estimated Resources was not posted correctly to the accounting system.

At December 31, 2017, estimated resources approved by the Budget Commission did not agree to the Village's ledgers for the following funds:

Fund	Estimated Receipts per Amended Certificate	Budgeted Receipts Per the UAN Accounting System	Variance
General	\$115,360	\$125,750	\$10,390
Drug Law Enforcement	450	0	(450)
Water Plant/Line Improvements	0	646,775	646,775
Sewer Plant/Line Improvements	0	519,877	519,877

At December 31, 2016, estimated resources approved by the Budget Commission did not agree to the Village's ledgers for the following funds:

Fund	Estimated Receipts per Amended Certificate	Budgeted Receipts Per the UAN Accounting System	Variance
Streetscape ARC	0	38,134	38,134
Water Plant/Line Improvements	0	681,800	681,800
Sewer Plant/Line Improvements	0	955,393	955,393

Failure to accurately post the appropriations and estimated resources to the ledgers could result in overspending and negative cash balances. Because the information entered into the accounting system was not always accurate, adjustments were made to the budgetary activity reported in Note 5 to the financial statements in order to accurately present budgeted receipts as certified by the County Auditor.

To effectively control the budgetary cycle and to maintain accountability over receipts and expenditures, the Village should post to the ledgers, on a timely basis, estimated resources as certified by the budget commission and appropriations approved by the Council.

**VILLAGE OF SOMERSET
PERRY COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-004 (Continued)

Material Weakness (Continued)

The Village should then monitor budget versus actual reports to help ensure amended certificates of resources and appropriations have been properly posted to the ledgers.

Official's Response: The Fiscal Officer will compare the County Budget certificate with the budget and make the necessary corrections on a yearly basis.

FINDING NUMBER 2017-005

Noncompliance

Ohio Rev. Code § 5705.10(I) states that money paid into any fund shall be used only for the purposes for which such fund is established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2017, subsequent to the audit adjustments discussed in Finding Number 2017-002, the General Fund had a negative cash fund balance of \$12,829. At December 31, 2016, subsequent to the audit adjustments discussed in Finding Number 2017-002, the Police Levy Fund had a negative cash fund balance of \$24,734.

The Fiscal Officer should monitor activity in the funds to ensure that money paid into funds are only being used for the purposes for which such funds are established.

Official's Response: See response to Finding Number 2017-002.

FINDING NUMBER 2017-006

Noncompliance

Ohio Revised Code § 5705.39 prohibits total appropriations in each fund from exceeding total estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For 2017, appropriations exceeded total estimated resources by \$32,835, \$5,580, \$900, \$646,775 and \$518,680 for the General, Police Levy, Police K9, Water Plant/Line Improvements, and Sewer Plant/Line Improvements Funds, respectively.

For 2016, appropriations exceeded total estimated resources by \$19,343, \$65,162, \$46,249, \$5,425 and \$83,586 for the Street Construction Maintenance and Repair, Police Levy, Streetscape ARC, Sewer Operating, and Water Debt Service Funds, respectively.

Failure to limit appropriations to total estimated resources could result in deficit spending.

The Village officials should monitor appropriations and estimated resources throughout the year to make sure appropriations do not exceed estimated resources.

Official's Response: The Fiscal Officer will keep a closer eye on the appropriations so that they do not exceed the estimated resources.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

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

FINDING NUMBER 2017-007

Noncompliance

Ohio Revised Code § 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated.

Expenditures plus outstanding commitments exceeded Council approved appropriations for the years ended December 31, 2017 and December 31, 2016 as follows:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
For the year ended December 31, 2017:			
General	\$235,902	\$312,286	(\$76,384)
Street Construction Maintenance and Repair	53,500	57,289	(3,789)
Police Department Levy	115,655	136,063	(20,408)
For the year ended December 31, 2016:			
General	253,575	266,874	(13,299)

In addition, as the result of the Village not budgeting for and recording on-behalf-payments from the Ohio Public Works Commission as discussed in Finding 2017-003, the Village's Streetscape ARC Capital Projects Fund had expenditures in excess of approved appropriations of \$318,114.

Failure to limit expenditures to Council approved appropriations could result in deficit spending within the Village's funds.

The Fiscal Officer should deny payment requests exceeding appropriations. The Fiscal Officer and Village Council should compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations

Official's Response: As noted in Finding 2017-003, the Fiscal Officer will monitor and record all grant budgeting and expenditures.

FINDING NUMBER 2017-008

Noncompliance

Ohio Revised Chapter 133 authorizes certain methods by which subdivisions may incur debt.

- Ohio Rev. Code § 133.22, a subdivision may issue anticipatory-securities if it meets the requirements outlined in the statute.
- Ohio Rev. Code § 133.10 permits a subdivision to issue anticipation securities in anticipation of current property tax revenues or in anticipation of current revenues in and for any fiscal year from any source or combination of sources, including distributions of any federal or state monies, other than the proceeds of property taxes levied by the subdivision.

**VILLAGE OF SOMERSET
PERRY COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-008 (Continued)

Noncompliance (Continued)

- Under Ohio Rev. Code § 133.15, a subdivision is authorized to issue securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct.
- Under Ohio Rev. Code § 133.18, the taxing authority of a subdivision may by legislation submit to the electors of the subdivision the question of issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

During 2017, the Village entered into two promissory notes, for \$30,000 and \$13,000, for the purchase of land and police cruisers, respectively. The Village made principal payments of \$993 on one promissory note and no payments had been made on the other outstanding promissory note.

This type of debt is not authorized in Ohio Rev. Code Chapter 133. Without a statutory provision authorizing this method for incurring debt, the Village was not permitted to use such a method. The Village had no statutory authority to incur debt through either installment loans or promissory notes with any banking institutions.

The Village should consult with legal counsel before incurring debt to determine if the debt is authorized by statute.

Official's Response: The Fiscal Officer will set up a meeting to discuss with the Village Solicitor regarding promissory notes and loans with financial institutions when obtaining debt through installment loans or notes.

**Mayor
Tom Johnson
740.743.2963**

**VILLAGE OF SOMERSET
Founded 1807
P.O. Box 10, 100 Public Square
Somerset, Ohio 43783
Fax (740) 743-1105**

**Fiscal Officer
Kelly Beem
740.743.2963**



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2014 and 2015

Finding Number	Finding Summary	Status	Additional Information
2015-001	2014 Material Weakness The Village does not have a process to review the output for errors. Should be according to Ohio Village Officer's Handbook and AOS guidance	Not corrected	The Village's Old Fiscal Officer did not make the appropriate postings to each fund. We contracted with another Fiscal Officer to review, adjust and report to council her findings. The new fiscal officer is still learning. She is attending conferences for help with this.
2015-002	2015 Non Compliance ORC 5705.39 The total appropriations from each fund shall not exceed the total of estimated resources available.	Not Corrected	Corrections were made from 2014 as stated in 2015-001. The Fiscal Officer is working hard to correct this, and not exceed the resources available
2015-003	2014-2015 Non Compliance ORC 5705.41 No subdivision shall make any expenditure unless it has been appropriated.	Not Corrected	Fiscal Officer is working more with Council to prevent the expenditures exceeding the appropriations. She will apply for Amended Certificates as needed per approval of council

Mayor Tom Johnson

OHIO AUDITOR OF STATE KEITH FABER



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
APRIL 9, 2019**