

***VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO***

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004***

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

January 10, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**Auditor of State  
Betty Montgomery**

Village Council  
Village of Somerset  
100 Public Square  
Somerset, Ohio 43783

We have reviewed the *Report of Independent Accountants* of the Village of Somerset, Perry County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Somerset is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 29, 2006

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**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Audit Report  
For the Years Ended December 31, 2005 & 2004**

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*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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### **REPORT OF INDEPENDENT ACCOUNTANTS**

Village of Somerset  
Perry County  
100 Public Square  
Somerset, Ohio 43783

To Village Council:

We have audited the accompanying financial statements of the Village of Somerset, Perry, County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Somerset, Perry County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2006, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***

October 3, 2006

VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
All Governmental Fund Types  
For the Year Ended December 31, 2005

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
<b>Receipts:</b>				
Property Taxes	\$ 104,809	\$ 3,245	\$ -	\$ 108,054
Intergovernmental	37,716	66,080	618,600	722,396
Charges for Services	9,844	2,162	-	12,006
Fines, Licenses and Permits	27,700	3,401	-	31,101
Interest	19,573	1,485	-	21,058
Other	416	-	-	416
<b>Total Receipts</b>	<b>200,058</b>	<b>76,373</b>	<b>618,600</b>	<b>895,031</b>
<b>Disbursements:</b>				
Security of Persons & Property	91,497	37,753	-	129,250
Leisure Time Activities	2,200	-	-	2,200
Community Environment	210	-	-	210
Transportation	-	37,271	-	37,271
General Government	76,991	1,103	-	78,094
Capital Outlay	-	146	1,377,186	1,377,332
Debt Service				
Principal Retirement	-	3,490	27,203	30,693
Interest	-	494	20,993	21,487
<b>Total Disbursements</b>	<b>170,898</b>	<b>80,257</b>	<b>1,425,382</b>	<b>1,676,537</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>29,160</b>	<b>(3,884)</b>	<b>(806,782)</b>	<b>(781,506)</b>
<b>Other Financing Sources/(Uses):</b>				
Loan Proceeds	-	-	982,339	982,339
<b>Total Other Financing Sources/(Uses)</b>	<b>-</b>	<b>-</b>	<b>982,339</b>	<b>982,339</b>
<b>Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses</b>	<b>29,160</b>	<b>(3,884)</b>	<b>175,557</b>	<b>200,833</b>
<b>Fund Cash Balance, January 1, 2005</b>	<b>115,423</b>	<b>46,907</b>	<b>117,806</b>	<b>280,136</b>
<b>Fund Cash Balance, December 31, 2005</b>	<b>\$ 144,583</b>	<b>\$ 43,023</b>	<b>\$ 293,363</b>	<b>\$ 480,969</b>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND  
CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND TYPE  
For the Year Ended December 31, 2005**

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals (Memorandum Only)</u>
<b>Receipts:</b>			
Charges for Services	\$ 544,073	\$ -	\$ 544,073
Miscellaneous	3,841	-	3,841
<b>Total Receipts</b>	<u>547,914</u>	<u>-</u>	<u>547,914</u>
<b>Disbursements:</b>			
Personal Services	161,311	-	161,311
Transportation	4,438	-	4,438
Contractual Services	66,975	-	66,975
Material and Supplies	32,384	-	32,384
Capital Outlay	109,863	-	109,863
Other	36	-	36
<b>Total Disbursements</b>	<u>375,007</u>	<u>-</u>	<u>375,007</u>
<b>Excess of Receipts Over/(Under) Disbursements</b>	<u>172,907</u>	<u>-</u>	<u>172,907</u>
<b>Non-Operating Receipts:</b>			
Fines and Forfeitures	-	26,268	26,268
<b>Total Non-Operating Receipts</b>	-	26,268	26,268
<b>Non-Operating Disbursements:</b>			
Debt Service			
Principal Retirement	(73,585)	-	(73,585)
Interest and Fiscal Charges	(75,184)	-	(75,184)
Distribution of Fines and Forfeitures	-	(26,351)	(26,351)
<b>Total Nonoperating Disbursements</b>	<u>(148,769)</u>	<u>(26,351)</u>	<u>(175,120)</u>
<b>Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements</b>	24,138	(83)	24,055
<b>Fund Cash Balance, January 1, 2005</b>	<u>848,280</u>	<u>355</u>	<u>848,635</u>
<b>Fund Cash Balance, December 31, 2005</b>	<u>\$ 872,418</u>	<u>\$ 272</u>	<u>\$ 872,690</u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
All Governmental Fund Types  
For the Year Ended December 31, 2004

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
<b>Receipts:</b>				
Property Taxes	\$ 49,563	\$ 37,381	\$ -	\$ 86,944
Intergovernmental	136,608	59,048	544,206	739,862
Charges for Services	9,582	-	-	9,582
Fines, Licenses and Permits	14,534	1,474	-	16,008
Interest	13,212	1,149	-	14,361
Other	9,395	2,874	17,124	29,393
<b>Total Receipts</b>	<b>232,894</b>	<b>101,926</b>	<b>561,330</b>	<b>896,150</b>
<b>Disbursements:</b>				
Security of Persons & Property	36,476	78,402	-	114,878
Leisure Time Activities	2,000	-	-	2,000
Community Environment	100	-	-	100
Transportation	-	94,022	-	94,022
General Government	73,634	610	-	74,244
Capital Outlay	48,774	34,343	1,162,745	1,245,862
Debt Service				
Principal Retirement	50,000	27,260	86,000	163,260
Interest	365	396	766	1,527
<b>Total Disbursements</b>	<b>211,349</b>	<b>235,033</b>	<b>1,249,511</b>	<b>1,695,893</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>21,545</b>	<b>(133,107)</b>	<b>(688,181)</b>	<b>(799,743)</b>
<b>Other Financing Sources/(Uses):</b>				
Loan Proceeds	21,000	72,285	753,954	847,239
<b>Total Other Financing Sources/(Uses)</b>	<b>21,000</b>	<b>72,285</b>	<b>753,954</b>	<b>847,239</b>
<b>Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses</b>	<b>42,545</b>	<b>(60,822)</b>	<b>65,773</b>	<b>47,496</b>
<b>Fund Cash Balance, January 1, 2004</b>	<b>72,878</b>	<b>107,729</b>	<b>52,033</b>	<b>232,640</b>
<b>Fund Cash Balance, December 31, 2004</b>	<b>\$ 115,423</b>	<b>\$ 46,907</b>	<b>\$ 117,806</b>	<b>\$ 280,136</b>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET**  
**PERRY COUNTY, OHIO**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND**  
**CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND TYPE**  
**For the Year Ended December 31, 2004**

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals (Memorandum Only)</u>
<b>Receipts:</b>			
Charges for Services	\$ 527,732	\$ -	\$ 527,732
Fines, Licenses, and Permits	1,550	-	1,550
<b>Total Receipts</b>	<u>529,282</u>	<u>-</u>	<u>529,282</u>
<b>Disbursements:</b>			
Personal Services	143,474	-	143,474
Transportation	2,990	-	2,990
Contractual Services	103,164	-	103,164
Material and Supplies	75,454	-	75,454
Other	7,444	-	7,444
<b>Total Disbursements</b>	<u>332,526</u>	<u>-</u>	<u>332,526</u>
<b>Excess of Receipts Over/(Under) Disbursements</b>	<u>196,756</u>	<u>-</u>	<u>196,756</u>
<b>Non-Operating Receipts:</b>			
Other Financing Sources-Return of Escrow	85,181	-	85,181
Fines and Forfeitures	-	20,564	20,564
<b>Total Non-Operating Receipts</b>	<u>85,181</u>	<u>20,564</u>	<u>105,745</u>
<b>Non-Operating Disbursements:</b>			
Debt Service			
Principal Retirement	(61,967)	-	(61,967)
Interest and Fiscal Charges	(60,289)	-	(60,289)
Distribution of Fines and Forfeitures	-	(20,381)	(20,381)
<b>Total Nonoperating Disbursements</b>	<u>(122,256)</u>	<u>(20,381)</u>	<u>(142,637)</u>
<b>Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements</b>	<u>159,681</u>	<u>183</u>	<u>159,864</u>
<b>Fund Cash Balance, January 1, 2004</b>	<u>688,599</u>	<u>172</u>	<u>688,771</u>
<b>Fund Cash Balance, December 31, 2004</b>	<u>\$ 848,280</u>	<u>\$ 355</u>	<u>\$ 848,635</u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

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 publicly elected, six-member Council. The Village provides general governmental services, including water, sewer, and electric utilities, park operations (leisure time activities), and police services (security of persons and property).

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following 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.)

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

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 accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. FUND ACCOUNTING - (Continued)

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.

Special Revenue Funds: These funds 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 and Repair Fund- Receives Motor vehicle and gasoline taxes for constructing, maintaining and repairing Village roads.
- Police Levy Fund- Receives property taxes to provide for police services.

Capital Projects Funds: These funds are used to account for receipts that are restricted for the acquisition or construction of major projects (except those financed through enterprise or trust funds). The Village has the following significant Capital Project Funds:

- Courthouse Restoration fund- Receives grants and proceeds from general obligation bonds to make improvements to the courthouse.
- Water Plant Project fund- Receives grants and loan proceeds for the construction of improvements to the Village water plant.

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 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.



**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS - (Continued)

The Village has the following significant Enterprise Funds:

- Water Operating Fund- Receives user fees and provides for the operations of the water department.
- Sewer Operating Fund- Receives user fees and provides for the operation of the sewer system.

Fiduciary Fund Types: These funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following is the Village's fiduciary fund type:

- Mayor's Court- This agency fund accounts for receipts and disbursements of the Mayor's Court.

F. BUDGETARY PROCESS

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. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of estimated resources stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. BUDGETARY PROCESS - (Continued)

On or about January 1, the Clerk sends the county auditor a certificate, which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected revenue increases or the Clerk identifies decreases in revenue.

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2004 and 2005. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding year without being re-appropriated.

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.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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>2005</u>	<u>2004</u>
Demand Deposits	\$ 480,052	\$ 498,316
Certificates of Deposit	<u>873,607</u>	<u>630,455</u>
Total	<u>\$1,353,659</u>	<u>\$1,128,771</u>

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

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2004.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

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

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

3. PROPERTY TAXES – (Continued)

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

The County Treasurer collects property tax on behalf of all taxing authorities within the county. The County Auditor periodically remits to the taxing authorities their portions of the taxes collected.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

<u>Fund:</u>	<u>2005 Budgeted vs Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 131,846	\$ 200,058	\$ 68,212
Special Revenue Funds	97,862	76,373	(21,489)
Capital Projects Funds	100,000	1,600,939	1,500,939
Enterprise Funds	525,000	547,914	22,914

<u>Fund:</u>	<u>2005 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$ 247,269	\$ 170,898	\$ 76,371
Special Revenue Funds	143,619	80,257	63,362
Capital Projects Funds	400,982	1,425,382	(1,024,400)
Enterprise Funds	1,226,594	523,776	702,818

<u>Fund:</u>	<u>2004 Budgeted vs Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 122,660	\$ 253,894	\$ 131,234
Special Revenue Funds	89,286	174,211	84,925
Capital Projects Funds	100,000	1,315,284	1,215,284
Enterprise Funds	525,000	614,463	89,463

<u>Fund:</u>	<u>2004 Budgeted vs Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$ 258,075	\$ 211,349	\$ 46,726
Special Revenue Funds	197,014	235,033	(38,019)
Capital Projects Funds	152,033	1,249,511	(1,097,478)
Enterprise Funds	1,066,914	454,782	612,132

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

4. BUDGETARY ACTIVITY – (Continued)

The Village was in violation of Ohio Revised Code sections 5705.36, 5705.39 and 5705.41(B).

5. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS), a state operated, cost sharing, multiple employer plans. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 8.5% of their gross pay while the Village contributed an amount equal to 13.55% of covered payroll. The Village paid all required contributions through 2005.

6. RISK MANAGEMENT

The Village of Somerset has obtained commercial insurance for the following risks:

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

All employees of the Village are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Also, the Village did not reduce its insurance coverages significantly during the year.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

7. DEBT

Debt outstanding at December 31, 2005 is as follows:

<u>Description:</u>	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bonds, Series B	\$ 979,000	4.50%
Sewer Mortgage Revenue Bonds, Series A	179,000	4.50%
Ohio Water Development Authority Loan #3311	189,214	2.00%
Ohio Water Development Authority Loan #3891	33,182	1.50%
Ohio Water Development Authority Loan #4028	1,569,978	2.00%
Ohio Public Works Commission #CR528	29,735	0.00%
Ohio Public Works Commission #CT59D	32,663	0.00%
General Obligation Loan-equipment	12,532	3.42%
Total	<u>\$3,025,304</u>	

Principal and interest requirements for debt at December 31, 2005 is as follows:

<u>Year Ended</u>	<u>Sewer Bonds- Series B</u>	<u>Sewer Bonds- Series A</u>	<u>OWDA #3311</u>	<u>OWDA #3891</u>	<u>OWDA #4028</u>	<u>OPWC #CR528</u>	<u>OPWC #CT59D</u>	<u>General Obligation Equipment Loan</u>
2006	\$ 80,055	\$15,055	\$11,766	\$1,477	\$84,626	\$1,652	\$ 1,675	\$ 3,984
2007	80,435	14,740	11,766	1,477	*	1,652	1,675	3,984
2008	80,725	14,425	11,766	1,477	*	1,652	1,675	3,984
2009	80,925	15,110	11,766	1,477	*	1,652	1,675	1,328
2010	80,035	14,750	11,766	1,477	*	1,652	1,675	-
2011- 2015	403,035	73,085	58,830	7,385	*	8,260	8,375	-
2016- 2020	402,790	74,010	58,830	7,385	*	8,260	8,375	-
2021- 2025	241,205	43,690	52,947	7,385	*	4,955	7,538	-
2026- 2030	-	-	-	7,385	*	-	-	-
2031- 2035	-	-	-	3,693	*	-	-	-
Total	<u>\$1,449,205</u>	<u>\$264,865</u>	<u>\$229,437</u>	<u>\$40,618</u>	*	<u>\$29,735</u>	<u>\$ 32,663</u>	<u>\$13,280</u>

\* This loan is currently being paid in bi-annual installments of \$42,313 (principal and interest). A final amortization schedule is expected to be completed in 2007.

8. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Somerset  
Perry County  
100 Public Square  
Somerset, Ohio 43783

To Village Council:

We have audited the financial statements of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 3, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of audit findings as item 2005-SOM-01.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 consider the reportable condition described above to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Village in a separate letter dated October 3, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of audit findings as Finding 2005-SOM-02 and 2005-SOM-03.

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

*Charles E. Harris and Associates, Inc.*

October 3, 2006



**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
SCHEDULE OF AUDIT FINDINGS  
For the Years Ended December 31, 2005 and 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2005-SOM-01-Material Weakness**

Ohio Administrative Code Section 117 requires the Village to maintain an accounting system which adequately assembles, analyzes, classifies, records and reports its transactions.

The Village maintained a computerized accounting system, which adequately assembles, analyzes, classifies and records its transactions. However, the financial statements were prepared manually from the computerized records and material errors occurred in the preparation of those financial statements for 2004 and 2005. The Village's year-end financial statements contained the following material errors:

1. There were two unrecorded transactions in 2004: a check to a contractor in the amount of \$216,000 was not recorded and a deposit of \$33,000 was not recorded. Both transactions were identified as reconciling items to the Village's book balance on the year-end bank reconciliation.
  
2. There was an error in the preparation of the 2005 year end financial statements which resulted in the capital outlay expenditures for the Water Plant Capital Projects Fund being under-reported by \$113,727 and, conversely, the cash balance for that fund being overstated by a corresponding amount.

The accompanying financial statements have been adjusted accordingly.

We recommend that the Village utilize the Auditor of State UAN system or another capable accounting application, which automates the reporting process.

Management will automate the report preparation in the future.

**Finding Number 2005-SOM-02-Noncompliance Citation**

Section 5705.39 Revised Code, sets out that the total appropriations from each fund should not exceed the total estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the appropriations from each fund do not exceed the total official estimate or amended official certificate. Contrary to this requirement, the general fund had appropriations which exceeded the estimated resources by \$62,537 for the year ended December 31, 2004. Also, the Capital Projects-Water Plant Project fund had appropriations which exceeded estimated resources by \$182,300 for the year ended December 31, 2005.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
SCHEDULE OF AUDIT FINDINGS  
For the Years Ended December 31, 2005 and 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2005-SOM-02-Continued**

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

Management indicated they will monitor budgetary information more closely in the future.

**Finding Number 2005-SOM-03-Noncompliance Citation**

Ohio Rev. Code Section 5705.36 requires an increased amended certificate of estimated resources to be requested whenever the fiscal officer determines that revenue collected will be more than the amount in the official certificate of estimated resources and the legislative authority intends to appropriate and expend the excess revenue. In addition, Ohio Revised Code Section 5705.41 (B) provides that no subdivision may expend money unless it has been appropriated.

We noted that the Village did not file an amended certificate of estimate resources for several funds that had actual receipts in excess of budgeted receipts. We further noted that the Village spent these excess funds without amending their appropriations, thereby causing expenditures to exceed appropriations as follows:

2005:

Fund	Appropriation	Expenditures	Variance
Capital Projects- Water Plant	\$ 217,122	\$1,383,574	\$(1,166,452)

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
SCHEDULE OF AUDIT FINDINGS  
For the Years Ended December 31, 2005 and 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**Finding Number 2005-SOM-03-Noncompliance Citation - continued**

2004:

Fund	Appropriation	Expenditures	Variance
Special Revenue-SCMR	\$ 69,697	\$124,870	\$(55,173)
Capital Projects-Courthouse Restoration	\$152,033	\$278,969	\$(126,936)
Capital Projects-Water Plant	\$-0-	\$970,542	\$(970,542)

We recommend Council and the Clerk compare expenditures to appropriations periodically. If additional appropriations are needed, then the Council and the Clerk should take the necessary steps to amend their estimated resources, if required, and adopt supplemental appropriations, if possible, to prevent expenditures from exceeding appropriations.

Management indicated they will monitor budgetary information more closely in the future.

**VILLAGE OF SOMERSET  
PERRY COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Years Ended December 31, 2005 and 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-SOM-02	ORC 5705.41(B) – Expenditures exceeded appropriations	No	Repeated as Finding 2005-SOM-03
2003-SOM-01	ORC 5705.39 – Appropriations exceeded available resources	No	Repeated as Finding 2005-SOM-02



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**VILLAGE OF SOMERSET**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 16, 2007**