

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002

Charles E. Harris and Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Village of Somerset, Perry County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2002 through December 31, 2003. 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.

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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 9, 2004

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**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2003 & 2002**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1
Combined Statement of Cash, Investments and Fund Cash Balances - All Fund Types - As of December 31, 2003 and 2002	2
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types- For the Years Ended December 31, 2003 and 2002	3 -4
Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Fund - For the Years Ended December 31, 2003 and 2002	5 -6
Combined Statement of Receipts - Budget and Actual - For the Years Ended December 31, 2003 and 2002	7 - 8
Combined Statement of Disbursements and Encumbrances Compared With Expenditure Authority - For the Years Ended December 31, 2003 and 2002	9 - 10
Notes to the Financial Statements	11 -16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	18
Status of Prior Audit Findings	19

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

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members
of Village Council
Village of Somerset
Somerset, Ohio

We have audited the accompanying financial statements of the Village of Somerset (the Village), as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and fund cash balances of the Village, as of December 31, 2003 and 2002, and the combined receipts, disbursements, and changes in fund cash balances, its combined statement of receipts-budget and actual and combined statement of disbursements and encumbrances compared with expenditure authority for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2004 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. 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.

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

Charles E. Harris & Associates, Inc.
September 17, 2004

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH
BALANCES - ALL FUND TYPES
As of December 31, 2003 and 2002

	<u>2003</u> <u>Balances</u>	<u>2002</u> <u>Balances</u>
Cash and Cash Equivalents	\$ 304,052	\$ 56,827
Investments	<u>617,359</u>	<u>715,548</u>
	<u>\$ 921,411</u>	<u>\$ 772,375</u>

Cash Balances By Fund Class

Governmental Fund Types:

General Fund	\$ 72,878	\$ 57,074
Special Revenue Funds	107,729	89,413
Capital Projects Funds	52,033	11,351

Proprietary Fund Type:

Enterprise Funds	688,599	614,353
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Fiduciary Fund Type:

Agency Fund	<u>172</u>	<u>184</u>
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Total	<u>\$ 921,411</u>	<u>\$ 772,375</u>
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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, 2003

	Governmental Fund Types			(Memorandum Only)
	General	Special Revenue	Capital Projects	Total
Receipts:				
Taxes	\$ 38,255	\$ 38,145	-	\$ 76,400
Intergovernmental	78,837	78,937	-	157,774
Charges for Services	13,441	-	-	13,441
Fines, Licenses, and Permits	12,241	1,253	-	13,494
Interest on Investments	16,779	1,083	-	17,862
Contributions and Donations	-	-	\$ 48,136	48,136
Miscellaneous	7,531	-	-	7,531
Total Receipts	167,084	119,418	48,136	334,638
Disbursements:				
Security of Persons & Property	95,661	28,776	-	124,437
Leisure Time Activities	1,000	-	-	1,000
Community Environment	315	-	-	315
Transportation	-	63,002	-	63,002
General Government	45,550	1,093	-	46,643
Capital Outlay	16,289	8,296	7,454	32,039
Total Disbursements	158,815	101,167	7,454	267,436
Excess of Receipts Over/(Under) Disbursements	8,269	18,251	40,682	67,202
Other Financing Sources/(Uses):				
Other Uses	(10)	-	-	(10)
Other Sources	7,545	65	-	7,610
Total Other Financing Sources/(Uses)	7,535	65	-	7,600
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	15,804	18,316	40,682	74,802
Fund Balance January 1, 2003	57,074	89,413	11,351	157,838
Fund Balance December 31, 2003	\$ 72,878	\$ 107,729	\$ 52,033	\$ 232,640

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, 2002

	Governmental Fund Types			(Memorandum Only)
	General	Special Revenue	Capital Projects	Total
Receipts:				
Taxes	\$ 35,166	\$ 8,607	-	\$ 43,773
Intergovernmental	39,585	69,003	\$ 47,000	155,588
Charges for Services	12,074	-	-	12,074
Fines, Licenses, and Permits	17,936	2,362	-	20,298
Interest on Investments	13,824	974	-	14,798
Miscellaneous	5,728	-	4	5,732
Total Receipts	124,313	80,946	47,004	252,263
Disbursements:				
Security of Persons & Property	82,189	24,645	-	106,834
Leisure Time Activities	750	-	-	750
Community Environment	404	-	-	404
Transportation	-	38,545	-	38,545
General Government	52,519	2,112	-	54,631
Capital Outlay	6,455	2,986	-	9,441
Debt Service:				
Principal	-	-	36,066	36,066
Interest	-	-	594	594
Total Disbursements	142,317	68,288	36,660	247,265
Excess of Receipts Over/(Under) Disbursements	(18,004)	12,658	10,344	4,998
Other Financing Sources/(Uses):				
Other Sources	2,549	556	-	3,105
Total Other Financing Sources/(Uses)	2,549	556	-	3,105
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	(15,455)	13,214	10,344	8,103
Fund Balance January 1, 2002	72,529	76,199	1,007	149,735
Fund Balance December 31, 2002	\$ 57,074	\$ 89,413	\$ 11,351	\$ 157,838

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
For the Year Ended December 31, 2003

	Proprietary Fund Type <u>Enterprise</u>	Fiduciary Fund Type <u>Agency</u>	Totals (Memorandum Only) <u>Only</u>
Operating Receipts:			
Charges for Services	\$ 502,464	\$ -	\$ 502,464
Total Operating Receipts	502,464	-	502,464
Operating Disbursements:			
Personal Services	127,906	-	127,906
Travel Transportation	1,911	-	1,911
Contractual Services	111,155	-	111,155
Material and Supplies	71,273	-	71,273
Capital Outlay	36,411	-	36,411
Total Operating Disbursements	348,656	-	348,656
Excess Receipts Over/(Under) Disbursements	153,808	-	153,808
Non-Operating Receipts:			
Proceeds from Loans	39,976	-	39,976
Other Non-Operating Receipts	937	16,240	17,177
Total Non-Operating Receipts	40,913	16,240	57,153
Non-Operating Disbursements:			
Debt Service:			
Principal	60,332	-	60,332
Interest	60,143	-	60,143
Other Non-Operating Disbursements	-	16,252	16,252
Total Non-Operating Disbursements	120,475	16,252	136,727
Net Receipts Over/(Under) Disbursements	74,246	(12)	74,234
Fund Balance January 1, 2003	614,353	184	614,537
Fund Balance December 31, 2003	\$ 688,599	\$ 172	\$ 688,771

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
For the Year Ended December 31, 2002

	Proprietary Fund Type <u>Enterprise</u>	Fiduciary Fund Type <u>Agency</u>	Totals (Memorandum Only) <u>Only</u>
Operating Receipts:			
Charges for Services	\$ 422,200	\$ -	\$ 422,200
Total Operating Receipts	422,200	-	422,200
Operating Disbursements:			
Personal Services	117,274	-	117,274
Travel Transportation	1,439	-	1,439
Contractual Services	115,712	-	115,712
Supplies and Materials	77,397	-	77,397
Total Operating Disbursements	311,822	-	311,822
Excess Receipts Over/(Under) Disbursements	110,378	-	110,378
Non-Operating Receipts:			
Other Non-Operating Receipts	1,467	21,998	23,465
Total Non-Operating Receipts	1,467	21,998	23,465
Non-Operating Disbursements:			
Debt Service:			
Principal	55,578	-	55,578
Interest	67,480	-	67,480
Other Non-Operating Disbursements	-	21,929	21,929
Total Non-Operating Disbursements	123,058	21,929	144,987
Net Receipts Over/(Under) Disbursements	(11,213)	69	(11,144)
Fund Balance January 1, 2002	625,566	115	625,681
Fund Balance December 31, 2002	\$ 614,353	\$ 184	\$ 614,537

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2003

<u>Fund Types/Funds:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Governmental Fund Types:</u>			
General Fund	\$ 126,865	\$ 174,629	\$ 47,764
Special Revenue	89,298	119,483	30,185
Capital Projects	-	48,136	48,136
 <u>Proprietary Fund Types:</u>			
Enterprise Funds	<u>432,612</u>	<u>543,377</u>	<u>110,765</u>
Total (Memorandum Only)	\$ <u>648,775</u>	\$ <u>885,625</u>	\$ <u>236,850</u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

<u>Fund Types/Funds:</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Governmental Fund Types:</u>			
General Fund	\$ 205,114	\$ 126,862	\$ (78,252)
Special Revenue	67,769	81,502	13,733
Capital Projects	4,100	47,004	42,904
 <u>Proprietary Fund Types:</u>			
Enterprise Funds	<u>370,000</u>	<u>423,667</u>	<u>53,667</u>
Total (Memorandum Only)	\$ <u>646,983</u>	\$ <u>679,035</u>	\$ <u>32,052</u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2003

<u>Fund Types/Funds</u>	<u>Carryover</u> <u>Appropriations</u>	<u>Year Ending</u> <u>2003</u> <u>Appropriations</u>	<u>Total</u>	<u>Actual</u> <u>2003</u> <u>Disbursements</u>	<u>Encumbrances</u> <u>as of</u> <u>12/31/03</u>	<u>Total</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Governmental Funds:							
General Fund	\$ 0	\$ 171,418	\$ 171,418	\$ 158,825	\$ 0	\$ 158,825	\$ 12,593
Special Revenue Funds	0	176,574	176,574	101,167	0	101,167	75,407
Capital Projects Funds	0	0	0	7,454	0	7,454	(7,454)
Proprietary Funds:							
Enterprise Funds	<u>0</u>	<u>912,311</u>	<u>912,311</u>	<u>469,131</u>	<u>0</u>	<u>469,131</u>	<u>443,180</u>
φ Total (Memorandum Only)	<u>\$ 0</u>	<u>\$ 1,260,303</u>	<u>\$ 1,260,303</u>	<u>\$ 736,577</u>	<u>\$ 0</u>	<u>\$ 736,577</u>	<u>\$ 523,726</u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2002

<u>Fund Types/Funds</u>	<u>Carryover</u> <u>Appropriations</u>	<u>Year Ending</u> <u>2002</u> <u>Appropriations</u>	<u>Total</u>	<u>Actual</u> <u>2002</u> <u>Disbursements</u>	<u>Encumbrances</u> <u>as of</u> <u>12/31/02</u>	<u>Total</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Governmental Funds:							
General Fund	\$ 0	\$ 175,250	\$ 175,250	\$ 142,317	\$ 0	\$ 142,317	\$ 32,933
Special Revenue Funds	0	136,633	136,633	68,288	0	68,288	68,345
Capital Projects Funds	0	0	0	36,660	0	36,660	(36,660)
Proprietary Funds:							
Enterprise Funds	<u>0</u>	<u>1,007,832</u>	<u>1,007,832</u>	<u>434,880</u>	<u>0</u>	<u>434,880</u>	<u>572,952</u>
Total (Memorandum Only)	\$ <u>0</u>	\$ <u>1,319,715</u>	\$ <u>1,319,715</u>	\$ <u>682,145</u>	\$ <u>0</u>	\$ <u>682,145</u>	\$ <u>637,570</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, 2003 and 2002

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **DESCRIPTION OF THE ENTITY**

The Village of Somerset, (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 and sewer 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. **REPORTING ENTITY**

In evaluating how to define the Village for financial reporting purposes, management has considered all agencies, departments and organizations making up the Village of Somerset (the primary government) and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." There were no significant changes in the reporting entity related to the implementation of this statement for the current audit period.

Component units are legally separate organizations for which the Village, as the primary government, is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and 1) the Village is able to significantly influence the programs or services performed or provided by the organization; or 2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Village is obligated for the debt of the organization. Component units may also include organizations for which the Village approves the budget, the issuance of debt, or the levying of taxes.

Based on the above definitions, the Village has determined that there were no component units required to be included the financial statements.

C. **BASIS OF ACCOUNTING**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursement 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.

D. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received. See Note 2 for further description.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (continued)

E. **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:

Governmental Fund Types:

General Fund: The General Fund is 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: To account for the proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes. The following is the significant special revenue fund:

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

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

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

Proprietary Fund Types:

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

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 are the Village's fiduciary fund types:

Mayor's Court Fund: This fund accounts for the receipts and disbursements of the Mayor's Court.

F. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

F. **BUDGETARY PROCESS** – (continued)

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. **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.

The legal level of budgetary control is at the function level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

4. **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. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated. In the budgetary financial statements, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

G. **PROPERTY, PLANT AND EQUIPMENT**

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

H. **UNPAID VACATION AND SICK LEAVE**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities on the accompanying financial statements.

I. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2002**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Village maintains a cash and investment pool used by all funds. The balance of this pool is displayed on the "Combined Statement of Cash, Investments, and Fund Cash Balances - All Fund Types, As of December 31, 2003 and 2002." The Ohio Revised Code prescribes allowable deposits and investments.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk/Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The carrying amount of the Village's cash and investments at December 31 was as follows:

	<u>2003</u>	<u>2002</u>
Demand Deposits	\$304,052	\$ 56,827
Certificates of Deposit	<u>617,359</u>	<u>715,548</u>
Total Deposits and Investments	<u>\$921,411</u>	<u>\$772,375</u>

3. PROPERTY TAX

Real property taxes are levied on assessed values, which equal 35 percent 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 2000.

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.

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 and are reflected in the accompanying financial statements as Intergovernmental Receipts.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

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

4. DEBT SERVICE TRUSTEED FUNDS

The Village's 1964 Series Sanitary Sewer System Mortgage Revenue Bonds agreement required the Village to establish various debt service funds to be maintained by a custodian bank. At December 31, 2003, the custodian held \$84,264 in these accounts. These assets and the related receipts and disbursements are not reflected in the accompanying financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 and 2002**

5. **DEBT**

Debt outstanding At December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer System Mortgage Revenue Bonds, Series B	\$1,047,000	4.50%
Sanitary Sewer System Mortgage Revenue Bonds, Series A	191,000	4.50%
Ohio Water Development Authority Loan #3311	204,786	2.00%
Ohio Water Development Authority Loan #3891	35,104	1.50%
Ohio Public Works Commission	36,341	0.00%
Sanitary Sewer System Mortgage Revenue Bonds, Series 1964	<u>11,000</u>	3.625%
Total	<u>\$1,525,231</u>	

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 60,314	\$ 60,689	\$ 121,003
2005	51,483	58,366	109,849
2006	53,657	56,348	110,005
2007	55,833	54,238	110,071
2008	58,011	52,032	110,043
Subsequent	<u>\$1,245,933</u>	<u>\$744,452</u>	<u>\$1,990,385</u>
Total	<u>\$1,525,231</u>	<u>\$1,026,125</u>	<u>\$2,551,356</u>

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, 2003 and 2002**

7. RETIREMENT SYSTEMS

The Ohio Public Employees Retirement System (OPERS) is a state operated, cost sharing, multiple employer public employee retirement system. OPERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. OPERS also provides survivor and disability benefits to vested employees. Contribution rates are prescribed by the Ohio Revised Code. The Village's OPERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% for 2003 and 2002 of participant's gross salaries. The Village has paid all contributions required through December 31, 2003.

Police officers of the Village are members of the Ohio Police and Fire Pension Fund (OP&F), a state operated, cost sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits to plan members and beneficiaries. The Ohio Revised Code prescribes contributions. The Village's OP & F members contributed 10% of their gross salaries. The Village contributed an amount equal to 19.5% of the participant's gross salaries through December 31, 2003 and 2002 for police officers. The Village has paid all contributions required through December 31, 2003.

The Village does not have a fire department.

8. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Ohio. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects the amount to be immaterial.

The Village may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Solicitor, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

9. COMPLIANCE

Ohio Revised Code Section 5705.39 provides that the total appropriations from each fund shall not exceed the total estimated resources. However, the Sewer Fund appropriation for 2002 exceeded estimated resources by \$12,266.

Ohio Revised Code Section 5705.41(B) requires that a subdivision or taxing unit only expend money after it has been appropriated. Contrary to this requirement, the Village expended \$7,454 in 2003 and \$36,660 in 2002 for the Courthouse Restoration Project without the proper appropriation.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members
of Village Council
Village of Somerset
Somerset, Ohio

We have audited the financial statements of the Village of Somerset as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Village in a separate letter dated September 17, 2004.

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 and grant agreements, 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 and other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings as items 2003-SOM-01 and 2003-SOM-02.

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

Charles E. Harris & Associates, Inc.
September 17, 2004

**VILLAGE OF SOMERSET
PERRY COUNTY
SCHEDULE OF FINDINGS
For the Years Ended December 31, 2003 and 2002**

Material Noncompliance Citation 2003-SOM-01

Ohio Rev. Code Section 5705.39, states that total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate. Appropriations exceeded estimated resources as follows:

2002:

Fund	Estimated Resources	Appropriations	Variance
Sewer Fund	\$630,169	\$642,435	\$(12,226)

Prior to Council authorizing the original appropriations or approving any amendments, we recommend Council to 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.

Material Noncompliance Citation 2003-SOM-02

Ohio Rev. Code Section 5705.41(B), states that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated. The Village did not amend its appropriation ordinance to reallocate funds for the expenditure of money in connection with the Courthouse Restoration Project. The following funds had expenditures in excess of appropriations:

2003:

Fund	Appropriation	Expenditures	Variance
Courthouse Restoration Fund – Capital Outlay	\$ -0-	\$7,454	\$(7,454)

2002:

Fund	Appropriation	Expenditures	Variance
Courthouse Restoration Fund – Debt Service	\$ -0-	\$36,660	\$(36,660)

We recommend that the appropriation ordinance be amended as needed to ensure that all expenditures are appropriated.

**VILLAGE OF SOMERSET
PERRY COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended December 31, 2003 and 2002**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-31064-001	Ohio Rev. Code Section 117.28– Finding for recovery	No	Claim filed with bonding Company. No court action initiated.
2001-31064-002	Ohio Rev. Code 5705.41(D)-Contracts and purchase commitments were not certified by the Clerk-Treasurer.	Yes	Finding No Longer Valid. The fiscal officer now provides the appropriate certification.
2001-31064-003	Grant receipts were recorded in the General Fund rather than a Special Revenue Fund.	Yes	Finding No Longer Valid. Restricted receipts related to grants are recorded in the Special Revenue Fund.
2001-31064-004	Expenditures in excess of appropriations for several funds.	No	Partially Corrected. Finding repeated as 2003-SOM-02.
2001-31064-005	Appropriations exceed estimated resources	No	Partially Corrected. Finding repeated as 2003-SOM-01.
2001-31064-006	Funds not established in accordance with issuance of Sanitary Sewer Revenue Bonds	Yes	Finding No Longer Valid. Funds properly maintained.
2001-31064-007	Various accounting deficiencies:monthly reports not prepared;bank accounts not reconciled; checks not posted.	Yes	Finding No Longer Valid. Suggested Corrective Action Implemented.
2001-31064-008	Employee time sheets not approved.	Yes	Finding No Longer Valid. Time Sheets Approved.
2001-31064-009	Activity of Courthouse Restoration not Recorded.	Yes	Finding No Longer Valid. Capital Projects Account Established to Account for Activity.



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 30, 2004**