



**Auditor of State
Betty Montgomery**

VILLAGE OF SOMERVILLE
BUTLER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Somerville
Butler County
146 South Main Street
Somerville, Ohio 45064

To the Village Council:

We have audited the accompanying financial statements of the Village of Somerville, Butler County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

January 15, 2004

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$5,384	\$0	\$5,384
Intergovernmental	28,444	20,071	48,515
Charges for Services		500	500
Fines, Licenses and Permits	1,116		1,116
Earnings on Investments	687	514	1,201
Miscellaneous	2,848	861	3,709
	<u>38,479</u>	<u>21,946</u>	<u>60,425</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	14,984	27	15,011
Leisure Time Activities	3,213		3,213
Transportation		15,290	15,290
General Government	16,329	11,173	27,502
Capital Outlay	1,853	8,791	10,644
	<u>36,379</u>	<u>35,281</u>	<u>71,660</u>
Total Receipts Over/(Under) Disbursements	<u>2,100</u>	<u>(13,335)</u>	<u>(11,235)</u>
Other Financing Receipts/(Disbursements):			
Transfers-In		2,140	2,140
Transfers-Out	(2,140)		(2,140)
	<u>(2,140)</u>	<u>2,140</u>	<u>0</u>
Cash Receipts and Other Financing Receipts (Under) Cash Disbursements And Other Financing Disbursements	<u>(40)</u>	<u>(11,195)</u>	<u>(11,235)</u>
Fund Cash Balance, January 1	<u>28,371</u>	<u>44,288</u>	<u>72,659</u>
Fund Cash Balance, December 31	<u><u>\$28,331</u></u>	<u><u>\$33,093</u></u>	<u><u>\$61,424</u></u>
Reserve for Encumbrances, December 31	<u><u>\$229</u></u>	<u><u>\$0</u></u>	<u><u>\$229</u></u>

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

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2001**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$6,444	\$0	\$6,444
Intergovernmental	30,752	31,687	62,439
Charges for Services		1,300	1,300
Fines, Licenses and Permits	1,166		1,166
Earnings on Investments	783	820	1,603
Miscellaneous	4,149		4,149
Total Cash Receipts	43,294	33,807	77,101
Cash Disbursements:			
Current:			
Security of Persons and Property	14,460		14,460
Public Health Services	74		74
Leisure Time Activities	3,043		3,043
Transportation		14,551	14,551
General Government	21,551	1,025	22,576
Capital Outlay	1,220	11,169	12,389
Total Cash Disbursements	40,348	26,745	67,093
Total Receipts Over Disbursements	2,946	7,062	10,008
Fund Cash Balance, January 1	25,425	37,226	62,651
Fund Cash Balance, December 31	\$28,371	\$44,288	\$72,659
Reserve for Encumbrances, December 31	\$2,220	\$1,481	\$3,701

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

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Somerville, Butler County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including fire protection, park operations, and police services

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Deposits

The Village funds are pooled in a savings account and checking account with a local commercial bank.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

FEMA Grant Fund -This fund receives federal funds to repair damage caused by flooding.

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	<u>2002</u>	<u>2001</u>
Demand deposits	<u>\$61,424</u>	<u>\$72,659</u>

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

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,351	\$38,479	(\$2,872)
Special Revenue	21,296	24,086	2,790
Total	\$62,647	\$62,565	(\$82)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$71,109	\$38,748	\$32,361
Special Revenue	62,292	35,281	27,011
Total	\$133,401	\$74,029	\$59,372

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,145	\$43,294	\$149
Special Revenue	33,746	33,807	61
Total	\$76,891	\$77,101	\$210

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$67,823	\$42,568	\$25,255
Special Revenue	69,428	28,226	41,202
Total	\$137,251	\$70,794	\$66,457

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX (Continued)

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

5. RETIREMENT SYSTEM

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001 PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and 2002. The Village has paid all contributions required through December 31, 2002.

6. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2002 and 2001 generally protect against individual losses exceeding \$150,000 for policies issued prior to April 1, 2000; \$100,000 for policies issued between April 1, 2000 and March 31, 2002; and \$125,000 for policies issued April 1, 2002 or later.

Property coverage contracts protect against losses, subject to a deductible of \$50,000, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool cedes reinsurance to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Assets	\$1,852,060	\$3,354,251
Liabilities	<u>(3,627,321)</u>	<u>(4,851,866)</u>
Retained deficit	<u>(\$1,775,261)</u>	<u>(\$1,497,615)</u>



**Auditor of State
Betty Montgomery**

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

Village of Somerville
Butler County
146 South Main Street
Somerville, Ohio 45064

To the Village Council:

We have audited the accompanying financial statements of the Village of Somerville, Butler County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated January 15, 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.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated January 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operating that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency 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 findings as item 2002-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

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

Betty Montgomery
Auditor of State

January 15, 2004

**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

- B. If the amount involved is less than \$1,000 (\$3,000, effective 4/7/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of Council, if such expenditure is otherwise valid.

The Village did not properly certify the availability of funds for purchase commitments for forty-five percent of expenditures tested and neither of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

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**VILLAGE OF SOMERVILLE
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
Management Letter Comment	Ohio Rev. Code, § 5705.41(D), Failure to certify funds.	No	Not Corrected, reissued as Finding Number 2002-001

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**Auditor of State
Betty Montgomery**

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800-282-0370
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VILLAGE OF SOMERVILLE

BUTLER 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
FEBRUARY 5, 2004**