

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2013 & 2012





Dave Yost • Auditor of State

Village Council
Village of Somerset
100 Public Square
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, 2012 through December 31, 2013. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 27, 2014

This page intentionally left blank.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2013 and 2012**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Independent Auditor's Report	1-3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types - For the Year Ended December 31, 2013	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund Types- For the Year Ended December 31, 2013	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types - For the Year Ended December 31, 2012	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund Types- For the Year Ended December 31, 2012	7
Notes to the Financial Statements	8-16
Schedule of Expenditures of Federal Awards	17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	18-19
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	20-21
Schedule of Findings	22-26
Schedule of Prior Audit Findings	27

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Somerset, Perry County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Charles Harris Associates

Charles E. Harris & Associates, Inc.
September 24, 2014

**VILLAGE OF SOMERSET
PERRY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2013**

	<u>Governmental Fund Types</u>			<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property Taxes	\$ 102,977	\$ 106,198	\$ -	\$ 209,175
Intergovernmental	6,720	77,334	-	84,054
Fines, Licenses and Permits	13,302	1,796	-	15,098
Earnings on Investments	839	-	-	839
Miscellaneous	6,338	-	-	6,338
Total Receipts	130,176	185,328	-	315,504
Disbursements:				
Current:				
Security of Persons & Property	47,525	101,186	-	148,711
Leisure Time Activities	5,300	-	-	5,300
Transportation	-	90,449	-	90,449
General Government	113,189	3,072	-	116,261
Debt Service:				
Principal	1,323	-	-	1,323
Interest	207	-	-	207
Total Disbursements	167,544	194,707	-	362,251
Total Receipts Over/(Under) Disbursements	(37,368)	(9,379)	-	(46,747)
Fund Cash Balance, January 1, 2013	341,813	270,088	15,452	627,353
Restricted	-	225,991	15,452	241,443
Unassigned	339,163	-	-	339,163
Fund Cash Balance, December 31, 2013	\$ 304,445	\$ 260,709	\$ 15,452	\$ 580,606

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND TYPES
For the Year Ended December 31, 2013**

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Types Agency</u>	<u>Totals- (Memorandum Only)</u>
Operating Receipts:			
Charges for Services	\$ 657,434	\$ -	\$ 657,434
Total Operating Receipts	657,434	-	657,434
Operating Disbursements:			
Personal Services & Employee Benefits	227,409	-	227,409
Contractual Services	90,419	-	90,419
Supplies and Materials	117,857	-	117,857
Total Operating Disbursements	435,685	-	435,685
Excess of Receipts Over/(Under) Disbursements	221,749	-	221,749
Non-Operating Receipts:			
Earnings on Investments	2,726	-	2,726
Loan Proceeds	335,339	-	335,339
Fines and Forfeitures	-	17,207	17,207
Total Non-Operating Receipts	338,065	17,207	355,272
Non-Operating Disbursements:			
Capital Outlay	(356,369)	-	(356,369)
Debt Service:			
Principal Retirement	(134,409)	-	(134,409)
Interest and Fiscal Charges	(77,706)	-	(77,706)
Distribution of Fines and Forfeitures	-	(16,027)	(16,027)
Total Nonoperating Disbursements	(568,484)	(16,027)	(584,511)
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	(8,670)	1,180	(7,490)
Fund Cash Balance, January 1, 2013	269,505	1,155	270,660
Fund Cash Balance, December 31, 2013	\$ 260,835	\$ 2,335	\$ 263,170

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2012**

	<u>Governmental Fund Types</u>			<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property Taxes	\$ 98,329	\$ 108,881	\$ -	\$ 207,210
Intergovernmental	7,216	140,711	-	147,927
Fines, Licenses and Permits	32,057	4,833	-	36,890
Earnings on Investments	428	-	-	428
Miscellaneous	6,506	-	-	6,506
Total Receipts	144,536	254,425	-	398,961
Disbursements:				
Current:				
Security of Persons & Property	68,649	91,129	-	159,778
Leisure Time Activities	1,578	-	-	1,578
Transportation	-	120,854	-	120,854
General Government	71,115	3,844	-	74,959
Debt Service:				
Principal	3,177	-	-	3,177
Interest	117	-	-	117
Total Disbursements	144,636	215,827	-	360,463
Total Receipts Over/(Under) Disbursements	(100)	38,598	-	38,498
Fund Cash Balance, January 1, 2012	341,913	231,490	15,452	588,855
Restricted	-	270,088	15,452	285,540
Unassigned	341,813	-	-	341,813
Fund Cash Balance, December 31, 2012	\$ 341,813	\$ 270,088	\$ 15,452	\$ 627,353

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND TYPES
For the Year Ended December 31, 2012**

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Types Agency</u>	<u>Totals- (Memorandum Only)</u>
Operating Receipts:			
Charges for Services	\$ 502,849	\$ -	\$ 502,849
Total Operating Receipts	502,849	-	502,849
Operating Disbursements:			
Personal Services & Employee Benefits	222,232	-	222,232
Contractual Services	80,419	-	80,419
Supplies and Materials	85,333	-	85,333
Total Operating Disbursements	387,984	-	387,984
Excess of Receipts Over/(Under) Disbursements	114,865	-	114,865
Non-Operating Receipts:			
Sale of Assets	1,550	-	1,550
Earnings on Investments	1,976	-	1,976
Intergovernmental-CDBG grant	500,000	-	500,000
OWDA Loan Proceeds	468,921	-	468,921
Fines and Forfeitures	-	24,067	24,067
Total Non-Operating Receipts	972,447	24,067	996,514
Non-Operating Disbursements:			
Capital Outlay	(898,351)	-	(898,351)
Debt Service:			
Principal Retirement	(131,061)	-	(131,061)
Interest and Fiscal Charges	(71,947)	-	(71,947)
Distribution of Fines and Forfeitures	-	(25,094)	(25,094)
Total Nonoperating Disbursements	(1,101,359)	(25,094)	(1,126,453)
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	(14,047)	(1,027)	(15,074)
Fund Cash Balance, January 1, 2012	283,552	2,182	285,734
Fund Cash Balance, December 31, 2012	\$ 269,505	\$ 1,155	\$ 270,660

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

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, street maintenance, police protection, and water and sewer services for its citizens.

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, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

- Streetscape Project Fund- This fund receives loans and grants for the improvement of the Village sidewalks and streets.

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.

The Village has the following significant Enterprise Funds:

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

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. FUND ACCOUNTING - (Continued)

- Water Fund- This fund receives loans and grants for the planning construction of a water distribution system as well as user fees for the operation of the 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 Village's fiduciary funds include:

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

E. BUDGETARY PROCESS

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 4.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. FUND BALANCE

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

1. Nonspendable- The Village classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.
2. Restricted- Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
3. Committed- The Village Council can commit amounts via formal action (resolution or ordinance). The Village must adhere to these commitments unless the Council amends the resolution or ordinance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.
4. Assigned- Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restrict or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Village Council.
5. Unassigned- Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

G. PROPERTY, PLANT AND EQUIPMENT

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

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

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>2013</u>	<u>2012</u>
Demand Deposits	\$582,575	\$639,858
Certificate of Deposit	<u>261,201</u>	<u>258,155</u>
Total	<u>\$843,776</u>	<u>\$898,013</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 become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

<u>Fund:</u>	<u>2013 Budgeted vs Actual Receipts</u>		<u>Variance</u>
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	
General Fund	\$ 182,128	\$ 130,176	\$ (51,952)
Special Revenue Funds	194,460	185,328	(9,132)
Capital Projects Funds	1,267,650	-	(1,267,650)
Enterprise Funds	1,000,000	995,499	(4,501)

<u>Fund:</u>	<u>2013 Budgeted vs Actual Budgetary Basis Disbursements</u>		<u>Variance</u>
	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	
General Fund	\$ 332,300	\$ 167,544	\$ 164,756
Special Revenue Funds	177,655	194,707	(17,052)
Capital Projects Funds	15,000	-	15,000
Enterprise Funds	1,064,050	1,004,169	59,881

<u>Fund:</u>	<u>2012 Budgeted vs Actual Receipts</u>		<u>Variance</u>
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	
General Fund	\$ 184,736	\$ 144,536	\$ (40,200)
Special Revenue Funds	137,675	254,425	116,750
Capital Projects Funds	-	-	-
Enterprise Funds	1,660,000	1,475,296	(184,704)

<u>Fund:</u>	<u>2012 Budgeted vs Actual Budgetary Basis Disbursements</u>		<u>Variance</u>
	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	
General Fund	\$ 329,222	\$ 144,636	\$ 184,586
Special Revenue Funds	265,900	215,827	50,073
Capital Projects Funds	15,000	-	15,000
Enterprise Funds	1,843,986	1,489,343	354,643

The Village was in violation of ORC 5705.39, appropriations exceeded estimated resources, and 5705.41 (B), expenditures exceeded appropriations.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

5. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a state operated, 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 prescribed by the Ohio Revised Code. For 2013 and 2012 OPERS, members contributed 10.00% of their gross pay while the Village contributed an amount equal to 14.00% of covered payroll. The Village paid all required contributions through 2013.

6. RISK MANAGEMENT

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

The Village has obtained commercial insurance for the following risks:

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

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

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

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

7. DEBT

Debt outstanding at December 31, 2013 is as follows:

<u>Description:</u>	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bond, Series A	\$ 116,000	4.50%
Sewer Mortgage Revenue Bond, Series B	637,000	4.50%
OWDA#3311	120,342	2.00%
OWDA#3891	24,890	1.50%
OWDA#4028	1,259,187	2.00%
OWDA#5951	442,281	2.00%
OPWC#CR528	3,304	0.00%
OPWC#CT59D	19,263	0.00%
OPWC#CT56Q	134,970	0.00%
	<u>\$ 2,757,237</u>	

The Sewer Mortgage Revenue Bonds were issued in 1999 to fund the Sanitary Sewer System and will be redeemed in installments ending in 2023.

The OWDA and OPWC loans relate to EPA mandated water and sewer construction projects. They are being repaid in semi-annual installments.

OWDA forgave \$208,707 of principal of OWDA loan #5951 in 2012.

Principal and interest requirements for loans outstanding at December 31, 2013 is as follows:

<u>Year Ended</u>	Sewer Bonds Series A	Sewer Bonds Series B	OWDA #3311	OWDA #3891	OWDA #4028
2014	\$14,220	\$80,665	\$11,766	\$1,477	\$73,727
2015	14,815	80,325	11,766	1,477	73,727
2016	14,365	80,895	11,766	1,477	73,727
2017	14,915	80,330	11,766	1,477	73,727
2018	14,420	80,675	11,766	1,477	73,727
2019-2023	74,000	402,095	58,830	7,385	368,635
2024-2028	-	-	5,883	7,385	368,635
2029-2033	-	-	-	6,647	368,635
2034-2035	-	-	-	-	73,727
Total	<u>\$146,735</u>	<u>\$804,985</u>	<u>\$123,543</u>	<u>\$28,802</u>	<u>\$1,548,267</u>

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012**

7. DEBT – (Continued)

<u>Year Ended</u>	OPWC CR528	OPWC CT59D	OPWC CT56Q
2014	\$3,304	\$1,675	\$4,499
2015	-	1,675	4,499
2016	-	1,675	4,499
2017	-	1,675	4,499
2018	-	1,675	4,499
2019-2023	-	8,375	22,495
2024-2028	-	2,513	22,495
2029-2033	-	-	22,495
2034-2038	-	-	22,495
2039-2045	-	-	22,495
Total	<u>\$3,304</u>	<u>\$19,263</u>	<u>\$134,970</u>

The amortization schedule for OWDA#5951 has not been determined.

8. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

**Village of Somerset, Perry County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012**

<u>Granting Agency/ Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U. S. Department of Housing and Urban and Development</u>			
Pass-Through, Ohio Department of Development OHCP: Community Development Block Grant	C-W-11-2KZ-1	14.228	\$ 500,000
Total Department of Housing and Urban Development			<u>500,000</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 500,000</u></u>

Note: This Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

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

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

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Somerset, Perry County (the Village), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated September 24, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Controls Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-SOM-01 and 02 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as findings 2013-SOM-03 and 04.

Entity's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and accordingly, we express no opinion on them.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.
September 24, 2014

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax (216) 436-2411

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

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

To the Village Council:

Report on Compliance for the Major Federal Program

We have audited the Village of Somerset's (the Village) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2012. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Village's major federal program.

Management's Responsibility

The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for the Village's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

Opinion on the Major Federal Program

In our opinion, the Village of Somerset complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-SOM-05. This finding did not require us to modify our compliance opinion on the major federal program.

Report on Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-SOM-05 to be a material weakness.

The Village's response to our internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris and Associates, Inc.
September 24, 2014

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**VILLAGE OF SOMERSET
PERRY COUNTY
December 31, 2012 and 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(d)(1)(ii)	<i>Were there any material weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material weaknesses reported for major federal programs?</i>	Yes
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	Yes
(d)(1)(vii)	<i>Major Program:</i>	CFDA #14.228 Community Development Block Grant
(d)(1)(viii)	<i>Dollar Threshold: Type AIB Programs</i>	\$300,000
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 2013 and 2012**

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

Finding Number 2013-SOM-01 - Material Weakness

The Village maintains its accounting records on QuickBooks. However, the Village prepares its financial statements manually and does not have a procedure in place to review the financial statements or ledgers for accuracy. Accordingly, the financial statements contained the following misstatements, omissions or errors during 2013 and 2012:

- Engineering fees of \$20,843 were recorded as negative intergovernmental receipts in 2013.
- Perry County Auditor fees of \$6,956 in 2012 and \$5,604 in 2013 were netted against Property Tax revenues.
- The \$38,714 of real estate tax receipts which were to be credited to the police levy fund were erroneously credited to the general fund.
- Mayor's Court fines and distribution of fines of \$24,067 in 2012 and \$17,207 in 2013 was not recorded in the agency fund.
- Grants and loans and related expenditures of \$355,295 in 2012 and \$322,471 in 2013 were not recorded.
- Interest earned on investments of more than \$10,000 had not been recorded for several years.
- Prior audit adjustments were not recorded.

The financial statements and the Village's records have been adjusted to properly reflect these transactions.

We recommend that the transactions be recorded in accordance with the classifications found in the *Ohio Village Officers' Handbook* and other AOS guidance and that the Village implement additional internal control procedures to ensure the accuracy and completeness of transactions and the annual financial reports. The internal control procedures can include additional review of financial statements, revenue ledgers, and expenditures ledgers by an outside consultant with significant governmental accounting experience and/or using analytical reviews for comparison of current year to prior year numbers.

Management Response:

The Village has experienced turnover in the fiscal officer position during the audit period and switched to a new accounting system January 1, 2014. We have retained an experienced Village Clerk who will be doing monthly financial statements and distributing them to the Village Council. We will also conduct a thorough review to ensure our internal controls are adequate.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 2013 and 2012**

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

Finding Number 2013-SOM-02 - Material Weakness

The Village had \$258,166 invested in certificates of deposit at the end of 2012 and \$261,201 invested at the end of 2013. However, the Village did not properly monitor the status of these investments as to maturity dates and the amount of interest earned. Therefore, the carrying amount of these investments was incorrectly reflected in the Village's accounting records.

In some cases investments that had matured and been reinvested in new certificates or deposited to the operating account were still being reflected in the Village's accounting records at their original value. Also, interest earned on the certificates of deposit was not recorded in 2012 or 2013.

The lack of internal control over investments makes the Village's investments susceptible to loss from fraud or mismanagement.

We recommend the Village maintain an investment ledger which lists relevant information for each investment such as the amount invested, identification number, the purchase date, the maturity date, the interest rate, etc. We further recommend the Village fiscal officer report the status of the Village's investments to the Village Council on a monthly basis.

Management Response:

We will maintain an investment ledger and report investments to Village Council on a monthly basis.

Finding Number 2013-SOM-03 - Noncompliance

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances:

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 2013 and 2012**

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

Finding Number 2013-SOM-03 - Noncompliance – (Continued)

2012

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
SR-Street Maintenance	\$110,807	\$146,000	\$(35,193)
Ent-Debt Service Sewer	-	99,000	(99,000)
Ent-Debt Service Water	-	104,000	(104,000)
Ent-Water Fund	428,936	529,440	(100,504)

2013

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
SR-Street Maintenance	\$32,777	\$ 68,000	\$(32,223)
SR-CPT Training	340	400	(60)
Ent-Debt Service Sewer	-	100,000	(100,000)
Ent-Debt Service Water	-	104,000	(104,000)

Management Response:

We did not receive a substantive response from management to the above finding.

Finding Number 2013-SOM-04 - Noncompliance

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. The following fund had total expenditures plus encumbrances expended money in excess of appropriations:

2013

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Special Revenue-Street Maintenance	\$ 68,000	\$ 95,384	\$(27,384)

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 2013 and 2012**

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

Finding Number 2013-SOM-04 - Noncompliance – (Continued)

We recommend Council and the Fiscal Officer compare expenditures to appropriations periodically. If additional appropriations are needed, then the Council and the Fiscal Officer should take the necessary steps to adopt supplemental appropriations, if possible to prevent expenditures from exceeding appropriations.

Management Response:

We did not receive a substantive response from management to the above finding.

3. FINDINGS FOR FEDERAL AWARDS

Finding 2013-SOM-05 – Noncompliance/Material Weakness

31 U.S.C. 7502 (a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in federal awards to have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearinghouse within nine months after year-end.

The Village received and expended a grant from the Ohio Department of Development passed through from the U.S. Department of Housing and Urban Development in 2012 in the amount of \$500,000. Although the Village entered into a contract with Buckeye Hills-Hocking Valley Regional Development District for various administrative functions related to the grant, they did not contract for the filing of the Data Collection Form with the Federal Audit Clearinghouse nor did they designate an in-house employee to perform that function. Therefore, the Village did not contract for an A-133 audit or file a timely Data Collection Form with the Federal Audit Clearinghouse.

The failure to file a timely report with the Federal Audit Clearinghouse jeopardizes the Village's eligibility for future federal awards.

We recommend that the Village designate the Fiscal Officer as the person responsible for compliance with the filing requirement required by A-133. The Fiscal Officer should track all federal money flowing in and out of the Village to determine whether a Single Audit is needed in the future.

Management Response:

Per discussion with Tom Johnson, Mayor on September 30, 2014, the Fiscal Officer will be assigned to track all federal receipts and disbursements so identify all future Single Audits.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended December 31, 2013 and 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	Material Weakness- Financial statement errors	No	Repeated as finding 2013-SOM-01
2011-02	Material Weakness- Investments not properly monitored and incorrectly recorded	No	Repeated as finding 2013-SOM-02

This page intentionally left blank.



Dave Yost • Auditor of State

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 6, 2014**