

VILLAGE OF SOMERSET

AUDIT REPORT

JANUARY 1, 2018 - DECEMBER 31, 2019

**Wilson, Phillips & Agin, CPA's, Inc.
1100 Brandywine Blvd. Building G
Zanesville, Ohio 43701**

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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 Wilson, Phillips & Agin, CPA's, Inc., for the audit period January 1, 2018 through December 31, 2019. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

June 22, 2020

This page intentionally left blank.

**VILLAGE OF SOMERSET
PERRY COUNTY
JANUARY 1, 2018 - DECEMBER 31, 2019**

TABLE OF CONTENTS

| | |
|--|-------|
| Table of Contents | (i) |
| Independent Auditors' Report | 1-2 |
| Financial Statements | |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2019 | 3 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2019 | 4 |
| 2019 Notes to the Financial Statements | 5 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2018 | 12 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2018 | 13 |
| 2018 Notes to the Financial Statements | 14 |
| Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards. | 23 |
| Schedule of Audit Findings | 25 |
| Schedule of Prior Audit Findings | 29 |

This page intentionally left blank.

**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type and related notes of the Village of Somerset, Perry County, as of and for the years ended December 31, 2019 and 2018.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial provisions of 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 2 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, to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory basis of accounting and GAAP are not reasonably determinable, are presumed to be material.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village of Somerset as of December 31, 2019 and 2018, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type and the related notes of Village of Somerset, Perry County as of December 31, 2019 and 2018, 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 2.

Emphasis of Matter

As discussed in Note 12 to the 2019 financial statements, during 2020, the impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2020, on our consideration of the Village of Somerset'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.

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
April 28, 2020

**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, 2019**

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|---------------------|--------------------------------|
| | General | Special Revenue | Capital Projects | |
| Cash Receipts: | | | | |
| Property and Other Taxes | \$ 78,164 | \$ 185,197 | \$ - | \$ 263,361 |
| Intergovernmental | 39,759 | 89,135 | 281,570 | 410,464 |
| Charges for Services | 2,070 | - | - | 2,070 |
| Fines, Licenses, Permits | 10,039 | 3,308 | - | 13,347 |
| Earnings on Investments | 6,330 | - | - | 6,330 |
| Miscellaneous | 36,612 | 16,595 | 7,500 | 60,707 |
| Total Cash Receipts | <u>172,974</u> | <u>294,235</u> | <u>289,070</u> | <u>756,279</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | - | 175,502 | - | 175,502 |
| Leisure Time Activities | 2,750 | - | - | 2,750 |
| Community Environment | - | - | 13,853 | 13,853 |
| Transportation | - | 128,917 | - | 128,917 |
| General Government | 198,842 | 3,870 | - | 202,712 |
| Capital Outlay | - | - | 444,319 | 444,319 |
| Debt Service: | | | | |
| Principal Retirement | 1,569 | 5,609 | 18,468 | 25,646 |
| Interest and Fiscal Charges | 1,151 | 977 | - | 2,128 |
| Total Cash Disbursements | <u>204,312</u> | <u>314,875</u> | <u>476,640</u> | <u>995,827</u> |
| Excess of Receipts Over (Under) Disbursements | (31,338) | (20,640) | (187,570) | (239,548) |
| Other Financing Receipts (Disbursements) | | | | |
| Other Debt Proceeds | - | - | 34,768 | 34,768 |
| Other Financing Sources | 50,917 | - | - | 50,917 |
| Total Other Financing Receipts (Disbursements) | <u>50,917</u> | <u>-</u> | <u>34,768</u> | <u>85,685</u> |
| Net Change in Fund Cash Balance | 19,579 | (20,640) | (152,802) | (153,863) |
| Fund Cash Balances, January 1, | <u>(17,097)</u> | <u>146,569</u> | <u>220,779</u> | <u>350,251</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | - | 125,929 | 67,977 | 193,906 |
| Unassigned (Deficit) | 2,482 | - | - | 2,482 |
| Fund Cash Balances, December 31 | <u>\$ 2,482</u> | <u>\$ 125,929</u> | <u>\$ 67,977</u> | <u>\$ 196,388</u> |

See notes to financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Enterprise |
|---|------------|
| Operating Cash Receipts: | |
| Charges for Services | \$ 786,617 |
| Miscellaneous | 16,319 |
| Total Operating Cash Receipts: | 802,936 |
| Operating Cash Disbursements: | |
| Personal Services | 189,377 |
| Fringe Benefits | 86,439 |
| Contractual Services | 116,628 |
| Supplies and Materials | 90,387 |
| Total Operating Cash Disbursements | 482,831 |
| Operating Income | 320,105 |
| Non-Operating Receipts/(Disbursements) | |
| Principal Retirement | (164,978) |
| Interest and Other Fiscal Charges | (51,790) |
| Total Non-Operating Receipts/(Disbursements) | (216,768) |
| Net Change in Fund Cash Balance | 103,337 |
| Fund Cash Balances, January 1, restated | 258,727 |
| Fund Cash Balances, December 31 | \$ 362,064 |

See notes to financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

1. REPORTING ENTITY

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Somerset, Perry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, street maintenance, police protection, and water and sewer services for its citizens.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

Governmental Funds

General Fund

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

Special Revenue Funds

These funds are used to account for proceeds from specific sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

Police Levy Fund – This fund receives income tax money for providing police services.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Funds

These funds account for and report financial resources that are restricted, committed or assigned receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust fund to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Innovation Gateway Fund – This fund receives grants for a new Builders Makerspace Technology Hub.

Downtown Revitalization Fund – This fund receives grants to redevelop out downtown Historic Area.

Enterprise Funds

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

Water Fund – This fund receives loans and grants for the planning construction of a water distribution system as well as user fees from residents for the operation of the system.

Sewer Fund – This fund 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.

Basis of Accounting

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

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

Budgetary Process

The Ohio Revised Code requires that each fund (except certain Agency Funds) be budgeted annually.

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. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 in the subsequent year.

A summary of 2019 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investment as assets. This basis does not record disbursement for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Property, Plant, and Equipment

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

Accumulated Leave

In certain circumstances, such as leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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. The classifications are as follows:

Nonspendable – The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Committed – Council can *commit* via formal action (resolution). The Village must adhere to these commitments unless council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than 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 Village Council or a Village official delegated that authority by ordinance, or by State Statute.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes amounts not contained 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 (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 classification could be used.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2019 is as follows:

| 2019 Budgeted vs. Actual Receipts | | | |
|--|----------------------|---------------------|--------------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 230,950 | \$ 223,891 | \$ (7,059) |
| Special Revenue | 293,050 | 294,235 | 1,185 |
| Capital Projects | 390,000 | 323,838 | (66,162) |
| Enterprise | 763,294 | 802,936 | 39,642 |
| Total | <u>\$ 1,677,294</u> | <u>\$ 1,644,900</u> | <u>\$ (32,394)</u> |

| 2019 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|----------------------------|---------------------------|------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 210,754 | \$ 204,312 | \$ 6,442 |
| Special Revenue | 327,264 | 314,875 | 12,389 |
| Capital Projects | 410,700 | 476,640 | (65,940) |
| Enterprise | 765,310 | 699,599 | 65,711 |
| Total | <u>\$ 1,714,028</u> | <u>\$ 1,695,426</u> | <u>\$ 18,602</u> |

Contrary to ORC 5705.39, the Village had funds with appropriations exceeding estimated revenue.

Contrary to ORC 5705.41(B), the Village had funds with expenditures exceeding appropriations.

Contrary to ORC 5705.41(D), the Village made expenditures prior to certification.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

4. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments 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:

| | |
|------------------------|-------------------|
| | 2019 |
| Demand Deposits | \$ 285,542 |
| Certificate of Deposit | 272,910 |
| Total Deposits | <u>\$ 558,452</u> |

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institutions public entity deposit pool.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 make semiannual payment, the first half is due by December 31. The second half payment is due the following June 20.

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

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; and
- Law Enforcement Liability

7. DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

Some of the Village's full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple employer plan. The Ohio Revised Code prescribes the plan benefits, which include postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2019, OPERS members contributed 10.0% of their gross wages and the Village contributed an amount equal to 14.0% of participant's gross salaries. The Village has paid all contributions required through December 31, 2019.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

7. DEFINED BENEFIT PENSION PLAN (Continued)

Ohio Police and Fire Retirement

The Village’s certified Fire Fighters and full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants, in 2019, contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.50% of full-time police officer’s wages. The Village contributed to OP&F an amount equal to 24.0% of certified fire fighter wages. The Village has paid all contributions required through December 31, 2019.

8. POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the traditional pension plan and combined plan was 0 percent during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the member-directed plan was 4.0 percent during calendar year 2019, OP&F contributes 0.5 percent to fund these benefits.

Beginning January 1, 2019, OP&F changed its retiree health care model to a stipend-based health care model. A stipend funded by OP&F was placed in individual Health Reimbursement Accounts that retirees use to be reimbursed for health care expenses.

9. DEBT

Debt outstanding at December 31, 2019 was as follows:

| | 2019 | |
|---|--------------|------|
| | Principal | % |
| Sewer Mortgage Revenue Bond, Series A | \$ 53,000 | 4.50 |
| Sewer Mortgage Revenue Bond, Series B | 289,000 | 4.50 |
| Ohio Water Development Authority Loan #3311 | 66,214 | 2.00 |
| Ohio Water Development Authority Loan #3891 | 18,588 | 1.50 |
| Ohio Water Development Authority Loan #4028 | 978,442 | 2.00 |
| Ohio Water Development Authority Loan #5951 | 386,311 | 2.00 |
| Ohio Water Development Authority Loan #7235 | 96,762 | 2.96 |
| Ohio Water Development Authority Loan #7406 | 279,815 | 0.00 |
| Ohio Public Works Commission Loan CT56Q | 89,368 | 0.00 |
| Ohio Public Works Commission Loan CT59D | 10,050 | 0.00 |
| Peoples National Bank Loan - Land | 25,934 | 4.25 |
| Peoples National Bank Loan - Truck | 23,011 | 3.75 |
| Total | \$ 2,316,495 | |

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

9. DEBT (Continued)

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

The Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans relate to EPA mandated water and sewer construction projects. They are being repaid in semi-annual installments. The amortization of OWDA loan #7406 have not been set, therefore no amortization table is available. OWDA 7406 is also restated to \$284,937 as of January 1, 2018.

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

The Peoples National Bank Loan was issued in 2018 for \$29,965 and was used to purchase a truck. The Loan will be paid from the State Highway Fund in monthly payments of \$548. It will be paid off in 2023. The loan is collateralized by the truck.

Amortization of the above debt, including interest, is scheduled as follows:

| Year Ending December 31 | Sewer Bond Series A | Sewer Bond Series B | OWDA #3311 | OWDA #3891 | OWDA #4028 |
|----------------------------|------------------------|------------------------|------------------|------------------|---------------------|
| 2020 | \$ 15,385 | \$ 81,005 | \$ 11,766 | \$ 1,477 | \$ 73,727 |
| 2021 | 13,800 | 79,945 | 11,766 | 1,477 | 73,727 |
| 2022 | 15,260 | 80,795 | 11,766 | 1,477 | 73,727 |
| 2023 | 14,630 | 80,465 | 11,766 | 1,477 | 73,727 |
| 2024 | - | - | 11,766 | 1,477 | 73,727 |
| 2025-2029 | - | - | 11,766 | 7,385 | 368,635 |
| 2030-2034 | - | - | - | 5,908 | 368,635 |
| 2035-2039 | - | - | - | - | 36,864 |
| | <u>\$ 59,075</u> | <u>\$ 322,210</u> | <u>\$ 70,596</u> | <u>\$ 20,678</u> | <u>\$ 1,142,769</u> |

| Year Ending December 31 | OWDA #5951 | OWDA #7235 | OPWC #CT56Q | OPWC #CT59D | PNB Land Loan |
|----------------------------|-------------------|-------------------|------------------|------------------|------------------|
| 2020 | \$ 21,037 | \$ 5,230 | \$ 3,135 | \$ 1,675 | \$ 2,709 |
| 2021 | 21,037 | 5,230 | 3,136 | 1,675 | 2,709 |
| 2022 | 21,037 | 5,230 | 3,135 | 1,675 | 2,709 |
| 2023 | 21,037 | 5,230 | 3,136 | 1,675 | 2,709 |
| 2024 | 21,037 | 5,230 | 3,135 | 1,675 | 2,709 |
| 2025-2029 | 105,185 | 26,150 | 15,679 | 1,675 | 13,545 |
| 2030-2034 | 105,185 | 26,150 | 15,679 | - | 6,309 |
| 2035-2039 | 105,185 | 26,150 | 15,679 | - | - |
| 2040-2044 | 63,111 | 26,150 | 15,679 | - | - |
| 2045-2049 | - | 10,460 | 10,975 | - | - |
| | <u>\$ 483,851</u> | <u>\$ 141,210</u> | <u>\$ 89,368</u> | <u>\$ 10,050</u> | <u>\$ 33,399</u> |

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

9. DEBT (Continued)

| Year Ending December 31 | PNB Truck |
|----------------------------|--------------|
| 2020 | \$ 6,587 |
| 2021 | 6,587 |
| 2022 | 6,587 |
| 2023 | 4,940 |
| | \$ 24,701 |

10. LINE OF CREDIT

The Village has a line of credit with Commodore Bank to be used for drawdowns used on the Downtown Revitalization project prior to receiving grants. In 2019 they withdrew \$34,768 and paid back \$34,768 to leave a balance of \$30,300 as of December 31, 2019.

11. RESTATEMENT OF FUND BALANCE

Fund balance in the General Fund has been restated for the year beginning January 1, 2019 for voided checks being added back:

| | Enterprise Fund |
|-----------------------------------|--------------------|
| Fund Balance at December 31, 2018 | \$ 255,247 |
| Adjustments | 3,480 |
| Fund Balance at January 1, 2019 | \$ 258,727 |

12. SUBSEQUENT EVENTS

The United State and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village. The impact on the Village's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**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, 2018**

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|---------------------|--------------------------------|
| | General | Special Revenue | Capital Projects | |
| Cash Receipts: | | | | |
| Property and Other Taxes | \$ 75,181 | \$ 152,315 | \$ - | \$ 227,496 |
| Intergovernmental | 294,701 | 85,311 | 294,320 | 674,332 |
| Charges for Services | 3,245 | - | - | 3,245 |
| Fines, Licenses, Permits | 10,061 | 4,837 | - | 14,898 |
| Earnings on Investments | 4,553 | - | - | 4,553 |
| Miscellaneous | 25,260 | 10,580 | 2,800 | 38,640 |
| Total Cash Receipts | <u>413,001</u> | <u>253,043</u> | <u>297,120</u> | <u>963,164</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 9,518 | 140,647 | - | 150,165 |
| Leisure Time Activities | 2,610 | - | - | 2,610 |
| Community Environment | - | - | 7,942 | 7,942 |
| Transportation | - | 103,055 | - | 103,055 |
| General Government | 377,526 | 3,904 | - | 381,430 |
| Capital Outlay | - | 29,965 | 106,535 | 136,500 |
| Debt Service: | | | | |
| Principal Retirement | 1,504 | 14,345 | 12,882 | 28,731 |
| Interest and Fiscal Charges | 1,205 | 751 | - | 1,956 |
| Total Cash Disbursements | <u>392,363</u> | <u>292,667</u> | <u>127,359</u> | <u>812,389</u> |
| Excess of Receipts Over (Under) Disbursements | 20,638 | (39,624) | 169,761 | 150,775 |
| Other Financing Receipts (Disbursements) | | | | |
| Other Debt Proceeds | - | 29,965 | 26,882 | 56,847 |
| Sale of Capital Assets | - | 4,599 | - | 4,599 |
| Transfers - In | - | 25,000 | - | 25,000 |
| Transfers - Out | (25,000) | - | - | (25,000) |
| Total Other Financing Receipts (Disbursements) | <u>(25,000)</u> | <u>59,564</u> | <u>26,882</u> | <u>61,446</u> |
| Net Change in Fund Cash Balance | (4,362) | 19,940 | 196,643 | 212,221 |
| Fund Cash Balances, January 1, restated | <u>(12,735)</u> | <u>126,629</u> | <u>24,136</u> | <u>138,030</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | - | 146,569 | 220,779 | 367,348 |
| Unassigned (Deficit) | (17,097) | - | - | (17,097) |
| Fund Cash Balances, December 31 | <u>\$ (17,097)</u> | <u>\$ 146,569</u> | <u>\$ 220,779</u> | <u>\$ 350,251</u> |

See notes to financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | Enterprise |
|---|------------|
| Operating Cash Receipts: | |
| Charges for Services | \$ 736,261 |
| Miscellaneous | 20,530 |
| Total Operating Cash Receipts: | 756,791 |
| Operating Cash Disbursements: | |
| Personal Services | 201,376 |
| Fringe Benefits | 82,049 |
| Contractual Services | 151,862 |
| Supplies and Materials | 116,606 |
| Total Operating Cash Disbursements | 551,893 |
| Operating Income | 204,898 |
| Non-Operating Receipts/(Disbursements) | |
| Principal Retirement | (155,023) |
| Interest and Other Fiscal Charges | (56,320) |
| Total Non-Operating Receipts/(Disbursements) | (211,343) |
| Net Change in Fund Cash Balance | (6,445) |
| Fund Cash Balances, January 1 | 261,692 |
| Fund Cash Balances, December 31 | \$ 255,247 |

See notes to financial statements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. REPORTING ENTITY

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Somerset, Perry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, street maintenance, police protection, and water and sewer services for its citizens.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

Governmental Funds

General Fund

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

Special Revenue Funds

These funds are used to account for proceeds from specific sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

Police Levy Fund – This fund receives income tax money for providing police services.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Funds

These funds account for and report financial resources that are restricted, committed or assigned receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust fund to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Innovation Gateway Fund – This fund receives grants for a new Builders Makerspace Technology Hub.

Downtown Revitalization Fund – This fund receives grants to redevelop out downtown Historic Area.

Enterprise Funds

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

Water Fund – This fund receives loans and grants for the planning construction of a water distribution system as well as user fees from residents for the operation of the system.

Sewer Fund – This fund 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.

Basis of Accounting

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

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

Budgetary Process

The Ohio Revised Code requires that each fund (except certain Agency Funds) be budgeted annually.

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. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 in the subsequent year.

A summary of 2018 budgetary activity appears in Note 3.

Deposits and Investments

The Village's accounting basis includes investment as assets. This basis does not record disbursement for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Property, Plant, and Equipment

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

Accumulated Leave

In certain circumstances, such as leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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. The classifications are as follows:

Nonspendable – The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Committed – Council can *commit* via formal action (resolution). The Village must adhere to these commitments unless council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than 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 Village Council or a Village official delegated that authority by ordinance, or by State Statute.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes amounts not contained 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 (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 classification could be used.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2018 is as follows:

| 2018 Budgeted vs. Actual Receipts | | | |
|--|----------------------|--------------------|--------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 428,335 | \$ 413,001 | \$ (15,334) |
| Special Revenue | 265,006 | 312,607 | 47,601 |
| Capital Projects | 537,730 | 324,002 | (213,728) |
| Enterprise | 767,834 | 756,791 | (11,043) |
| Total | \$ 1,998,905 | \$ 1,806,401 | \$ (192,504) |

| 2018 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 420,389 | \$ 417,363 | \$ 3,026 |
| Special Revenue | 343,198 | 292,667 | 50,531 |
| Capital Projects | 509,949 | 127,359 | 382,590 |
| Enterprise | 785,929 | 763,236 | 22,693 |
| Total | \$ 2,059,465 | \$ 1,600,625 | \$ 458,840 |

Contrary to ORC 5705.39, the Village had funds with appropriations exceeding estimated revenue.

Contrary to ORC 5705.41(B), the Village had funds with expenditures exceeding appropriations.

Contrary to ORC 5705.41(D), the Village made expenditures prior to certification.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

4. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments 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:

| | |
|------------------------|-------------------|
| | 2018 |
| Demand Deposits | \$ 336,977 |
| Certificate of Deposit | 268,521 |
| Total Deposits | <u>\$ 605,498</u> |

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institutions public entity deposit pool.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 make semiannual payment, the first half is due by December 31. The second half payment is due the following June 20.

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

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; and
- Law Enforcement Liability

7. DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

Some of the Village's full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple employer plan. The Ohio Revised Code prescribes the plan benefits, which include postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2018, OPERS members contributed 10.0% of their gross wages and the Village contributed an amount equal to 14.0% of participant's gross salaries. The Village has paid all contributions required through December 31, 2018.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. DEFINED BENEFIT PENSION PLAN (Continued)

Ohio Police and Fire Retirement

The Village's certified Fire Fighters and full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants, in 2018, contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.50% of full-time police officer's wages. The Village contributed to OP&F an amount equal to 24.0% of certified fire fighter wages. The Village has paid all contributions required through December 31, 2018.

8. POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits and OP&F contributes 0.5 percent to fund these benefits.

9. DEBT

Debt outstanding at December 31, 2018 was as follows:

| | 2018 Principal | % |
|---|-------------------|------|
| Sewer Mortgage Revenue Bond, Series A | \$ 65,000 | 4.50 |
| Sewer Mortgage Revenue Bond, Series B | 353,000 | 4.50 |
| Ohio Water Development Authority Loan #3311 | 76,501 | 2.00 |
| Ohio Water Development Authority Loan #3891 | 19,773 | 1.50 |
| Ohio Water Development Authority Loan #4028 | 1,031,799 | 2.00 |
| Ohio Water Development Authority Loan #5951 | 399,425 | 2.00 |
| Ohio Water Development Authority Loan #7235 | 97,864 | 2.96 |
| Ohio Water Development Authority Loan #7406 | 284,937 | 0.00 |
| Ohio Public Works Commission Loan CT56Q | 92,504 | 0.00 |
| Ohio Public Works Commission Loan CT59D | 11,725 | 0.00 |
| Peoples National Bank Loan - Land | 27,503 | 4.25 |
| Peoples National Bank Loan - Truck | 28,620 | 3.75 |
| Total | \$ 2,488,651 | |

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

The Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans relate to EPA mandated water and sewer construction projects. They are being repaid in semi-annual installments. The amortization of OWDA loan #7406 have not been set, therefore no amortization table is available. OWDA 7406 is also restated to \$284,937 as of January 1, 2018.

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

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

9. DEBT (Continued)

The Peoples National Bank Loan was issued in 2018 for \$29,965 and was used to purchase a truck. The Loan will be paid from the State Highway Fund in monthly payments of \$548. It will be paid off in 2023. The loan is collateralized by the truck.

Amortization of the above debt, including interest, is scheduled as follows:

| Year Ending December 31 | Sewer Bond Series A | Sewer Bond Series B | OWDA #3311 | OWDA #3891 | OWDA #4028 |
|----------------------------|------------------------|------------------------|------------------|------------------|---------------------|
| 2019 | \$ 14,925 | \$ 79,855 | \$ 11,766 | \$ 1,477 | \$ 73,727 |
| 2020 | 15,385 | 81,005 | 11,766 | 1,477 | 73,727 |
| 2021 | 13,800 | 79,945 | 11,766 | 1,477 | 73,727 |
| 2022 | 15,260 | 80,795 | 11,766 | 1,477 | 73,727 |
| 2023 | 14,630 | 80,465 | 11,766 | 1,477 | 73,727 |
| 2024-2028 | - | - | 23,532 | 7,385 | 368,635 |
| 2029-2033 | - | - | - | 7,385 | 368,635 |
| 2034-2038 | - | - | - | - | 110,591 |
| | <u>\$ 74,000</u> | <u>\$ 402,065</u> | <u>\$ 82,362</u> | <u>\$ 22,155</u> | <u>\$ 1,216,496</u> |

| Year Ending December 31 | OWDA #5951 | OWDA #7235 | OPWC #CT56Q | OPWC #CT59D | PNB Land Loan |
|----------------------------|-------------------|-------------------|------------------|------------------|------------------|
| 2019 | \$ 21,037 | \$ 2,615 | \$ 3,135 | \$ 1,675 | \$ 2,709 |
| 2020 | 21,037 | 5,230 | 3,136 | 1,675 | 2,709 |
| 2021 | 21,037 | 5,230 | 3,135 | 1,675 | 2,709 |
| 2022 | 21,037 | 5,230 | 3,136 | 1,675 | 2,709 |
| 2023 | 21,037 | 5,230 | 3,135 | 1,675 | 2,709 |
| 2024-2028 | 105,185 | 26,150 | 15,679 | 3,350 | 13,545 |
| 2029-2033 | 105,185 | 26,150 | 15,679 | - | 9,018 |
| 2034-2038 | 105,185 | 26,150 | 15,679 | - | - |
| 2039-2043 | 84,148 | 26,150 | 15,679 | - | - |
| 2044-2048 | - | 15,690 | 14,111 | - | - |
| | <u>\$ 504,888</u> | <u>\$ 143,825</u> | <u>\$ 92,504</u> | <u>\$ 11,725</u> | <u>\$ 36,108</u> |

| Year Ending December 31 | PNB Truck |
|----------------------------|------------------|
| 2019 | \$ 6,587 |
| 2020 | 6,587 |
| 2021 | 6,587 |
| 2022 | 6,587 |
| 2023 | 4,940 |
| | <u>\$ 31,288</u> |

10. LINE OF CREDIT

The Village has a line of credit with Commodore Bank to be used for drawdowns used on the Downtown Revitalization project prior to receiving grants. In 2018 they withdrew \$26,882 and paid back \$12,822 to leave a balance of \$14,000 as of December 31, 2018.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

11. RESTATEMENT OF FUND BALANCE

Fund balance in the General Fund has been restated for the year beginning January 1, 2018 for voided checks being added back.:

| | General Fund |
|-----------------------------------|--------------------|
| Fund Balance at December 31, 2017 | \$ (12,829) |
| Adjustments | 94 |
| Fund Balance at January 1, 2018 | <u>\$ (12,735)</u> |

**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

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

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

To the Village Council:

We have audited, in accordance with auditing standards general accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of Somerset, Perry County as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements and have issued our report thereon dated April 28, 2020, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be material weaknesses. We consider finding 2019-002 and 2019-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Somerset'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 was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed four instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2019-001, 2019-003, 2019-004 and 2019-005.

Entity's Response to Finding

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

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.

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
April 28, 2020

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-001

Noncompliance – Certification of Funds

Ohio Revised Code Section 5705.41(D) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates and super blanket certificates, which are provided for in Sections 5705.41(D) (1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- If the fiscal officer can certify that both at the time that the contract or order was made (“then”) and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has 30 days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of the expenditures by the Village.
- Blanket Certificates. Fiscal officers may prepare “blanket” certificates if the Village has approved their use and established maximum amounts.
- Super Blanket Certificates. The Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonable predictable operation expense. This certification is not to extend beyond the current year. More than one so-called “super blanket” certificate may be outstanding at a particular time for any line item appropriation.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-001 (Continued)

The Village did not certify the availability of funds prior to the purchase commitment for 53% of expenditures tested. For these item the Village also did not prepare blanket certificates, super blankets certificates or then and now certificates in accordance with the Ohio Revised Code. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Village certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper code, to reduce available appropriations.

Client Response: The Village will try to use Blankets and Then and Now Certificates. All expenditures are assigned a purchase order.

FINDING NUMBER 2019-002

Material Weakness – Financial Reporting

All local offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village Officer's Handbook (Revised March 2019) provides suggested accounts classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

The Village did not properly post all receipts and expenditures. Errors were made in recording various transactions. Amounts were not always posted to the correct fund and/or line item. The following reclassifications and adjustments were made.

- In 2018, an adjustment was made in the amount of \$7,590 to increase Intergovernmental Revenue in the State Highway Fund and decrease Intergovernmental Revenue in the Street Fund to properly allocate gas tax.
- In 2018, an adjustment was made in the amount of \$9,016 to decrease Intergovernmental Revenue in the General Fund and to increase Intergovernmental Revenue in the Police Fund to properly allocate rollbacks received.
- In 2018, an adjustment was made in the amount of \$29,965 in the State Highway Fund to record the Debt Proceeds and Capital Outlay of the truck purchased.
- In 2018, a reclassification in the amount of \$14,195 was made to increase Intergovernmental Revenue and decrease Miscellaneous Revenue in the General Fund for grant money.
- In 2018, a reclassification in the amount of \$4,599 was made to increase Sale of Capital Assets and decrease Miscellaneous Revenue in the Police Fund for the sale of cruisers.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-002 (Continued)

- In 2018, a reclassification was made in the amount of \$205 to decrease Principal Retirement and increase Interest and Other Fiscal Charges in the General Fund to properly show debt paid.
- In 2018, a reclassification in the amount of \$13,449 was made to decrease Security of Person and Property and to increase Principal Retirement by \$12,997 and increase Interest and Other Fiscal Charges by \$452 in the Police Fund to properly show debt paid.
- In 2018, a reclassification in the amount of \$698 was made to increase Principal Retirement and decrease Interest and Other Fiscal Charges in the Sewer Debt fund to properly show debt paid.
- In 2019, minor reclassifications were made to Principal Retirement and Interest and Other Fiscal Charges in the General Fund and Sewer Debt Fund to properly show debt paid.

The reclassifications with which the Village Official's agree are reflected in the accompanying financial statements are posted to the accounting records.

We recommend the Village utilize available authoritative resources to appropriately classify and record all receipt and expenditure transactions.

Client Response: The Village will work diligently to not have same errors.

FINDING NUMBER 2019-003

Noncompliance and Material Weakness

Ohio Revised Code Section 5705.10(I) provides that money paid into a fund must be used only for the purposes which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2018, the General Fund had a negative fund balance of \$17,097.

We recommend available fund cash balances be reviewed regularly to evaluate the reasoning behind a negative cash balance and determine how to correct the situation when necessary. The Village's management should ensure that money from one fund is not used to cover the expenses of another fund.

Client Response: We were aware that with prior audit adjustments the General Fund was going to be negative.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-004

Noncompliance

Ohio Revised Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total estimated resources.

| | | Estimated | | | |
|-------------------|------|------------|--|----------------|-------------|
| Fund | Year | Resources | | Appropriations | Variance |
| Sewer Operating | 2019 | \$ 219,821 | | \$ 234,829 | \$ (15,008) |
| DT Revitalization | 2018 | 50,000 | | 65,000 | (15,000) |

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative fund balances.

The Village should regularly monitor appropriations and estimated resources to ensure that appropriations do not exceed the total estimated resources available for expenditure in each fund. This will help to reduce the risk of overspending within the Village and will add a measure of control over the Village’s budgetary process.

Client Response: We will monitor appropriations and estimated resources so that this does not happen again.

FINDING NUMBER 2019-005

Noncompliance – Expenditures Exceeding Appropriations

Ohio Revised Code Section 5705.41 (B) states no subdivision or taxing unit is to expend money unless it has been appropriated. The Village had the following funds which had expenditures greater than appropriation authority.

| | | Appropriation | | | |
|--------------------|------|---------------|--|--------------|------------|
| Fund | Year | Authority | | Expenditures | Variance |
| Police Wage Levy | 2019 | \$ 177,757 | | \$ 179,370 | \$ (1,613) |
| Innovation Gateway | 2019 | 20,000 | | 75,314 | (55,314) |
| Street | 2018 | 59,475 | | 61,188 | (1,713) |

We recommend Council review expenditures versus appropriation authority throughout the year. Also, Council should not approve expenditures greater than appropriations. This results in the Village spending more money than it appropriated and could cause possible negative fund balances.

Client Response: Proper action with Council will be taken to assure we are not spending more than is appropriated to avoid negative fund balances.

**VILLAGE OF SOMERSET
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2019**

| Finding Number | Finding Summary | Fully Corrected | Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|---|-----------------|--|
| 2017-001 | Noncompliance and Material Weakness Expenditures made for a proper public purpose | Yes | Finding No Longer Valid |
| 2017-002 | Noncompliance and Material Weakness ORC 5705.10(D) revenue posted to proper fund | No | Not Corrected Repeated as Finding 2019-002 |
| 2017-003 | Material Weakness Adjustments and reclassifications | No | Not Corrected Repeated as Finding 2019-002 |
| 2017-004 | Material Weakness Budgetary amounts approved did not agree with accounting records | Yes | Finding No Longer Valid |
| 2017-005 | Noncompliance ORC 5705.10(I) negative fund balance | No | Not Corrected Repeated as Finding 2019-003 |
| 2017-006 | Noncompliance ORC 5705.39 appropriations cannot exceed estimated revenue | No | Not Corrected Repeated as Finding 2019-004 |
| 2017-007 | Noncompliance ORC 5705.41(D) expenditures cannot exceed appropriations | No | Not Corrected Repeated as Finding 2019-005 |
| 2017-008 | Noncompliance ORC Chapter 133 Incurring debt | Yes | Finding No Longer Valid |

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER



VILLAGE OF SOMERSET

PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 2, 2020**