

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010

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



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of Somerset, Perry County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

Dave Yost
Auditor of State

January 28, 2013

This page intentionally left blank.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2011 & 2010**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2011	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances- Proprietary Fund Type and Similar Fiduciary Fund- For the Year Ended December 31, 2011	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances- Proprietary Fund Type and Similar Fiduciary Fund - For the Year Ended December 31, 2010	6
Notes to the Financial Statements	7-16
Independent Accountant's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17-18
Schedule of Findings	19-20
Schedule of Prior Audit Findings	21

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave, Suite1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

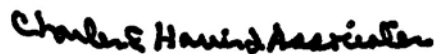
Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 of the Village of Somerset, Perry County, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

As described in Note 8, during 2010 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Charles E. Harris & Associates, Inc.

October 19, 2012

VILLAGE OF SOMERSET
PERRY COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2011

	Governmental Fund Types			Totals- (Memorandum Only)
	General	Special Revenue	Capital Projects	
Receipts:				
Property Taxes	\$ 76,404	\$ 89,051	\$ -	\$ 165,455
Intergovernmental	45,395	76,377	-	121,772
Charges for Services	9,639	-	-	9,639
Fines, Licenses and Permits	16,446	-	-	16,446
Earnings on Investments	659	674	-	1,333
Miscellaneous	1,276	2,263	-	3,539
Total Receipts	149,819	168,365	-	318,184
Disbursements:				
Security of Persons & Property	73,380	66,090	-	139,470
Leisure Time Activities	1,500	-	-	1,500
Community Environment	62	-	-	62
Transportation	-	52,704	-	52,704
General Government	43,502	75	-	43,577
Capital Outlay	48,457	1,074	-	49,531
Total Disbursements	166,901	119,943	-	286,844
Total Receipts Over/(Under) Disbursements	(17,082)	48,422	-	31,340
Other Financing Sources/(Uses):				
Loan Proceeds	4,500	-	-	4,500
Total Other Financing Sources/(Uses)	4,500	-	-	4,500
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	(12,582)	48,422	-	35,840
Fund Cash Balance, January 1, 2011	354,495	183,068	15,452	553,015
Restricted	-	231,490	15,452	246,942
Unassigned	341,913	-	-	341,913
Fund Cash Balance, December 31, 2011	\$ 341,913	\$ 231,490	\$ 15,452	\$ 588,855

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
For the Year Ended December 31, 2011

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals- (Memorandum Only)</u>
Receipts:			
Charges for Services	\$ 502,570	\$ -	\$ 502,570
Total Receipts	<u>502,570</u>	<u>-</u>	<u>502,570</u>
Disbursements:			
Personal Services	219,483	-	219,483
Transportation	3,935	-	3,935
Contractual Services	57,586	-	57,586
Supplies and Materials	67,997	-	67,997
Total Disbursements	<u>349,001</u>	<u>-</u>	<u>349,001</u>
Excess of Receipts Over/(Under) Disbursements	<u>153,569</u>	<u>-</u>	<u>153,569</u>
Non-Operating Receipts:			
Interest	13,561	-	13,561
Intergovernmental	45,115	-	45,115
Other Financing Sources	2,513	-	2,513
Fines and Forfeitures	-	12,867	12,867
Total Non-Operating Receipts	<u>61,189</u>	<u>12,867</u>	<u>74,056</u>
Non-Operating Disbursements:			
Capital Outlay	(123,040)	-	(123,040)
Other Financing Uses	(3,757)	-	(3,757)
Debt Service:			
Principal Retirement	(116,781)	-	(116,781)
Interest and Fiscal Charges	(70,658)	-	(70,658)
Distribution of Fines and Forfeitures	-	(12,139)	(12,139)
Total Nonoperating Disbursements	<u>(314,236)</u>	<u>(12,139)</u>	<u>(326,375)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	<u>(99,478)</u>	<u>728</u>	<u>(98,750)</u>
Fund Cash Balance, January 1, 2011	<u>383,030</u>	<u>1,454</u>	<u>384,484</u>
Fund Cash Balance, December 31, 2011	<u>\$ 283,552</u>	<u>\$ 2,182</u>	<u>\$ 285,734</u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2010**

	Governmental Fund Types			Totals- (Memorandum Only)
	General	Special Revenue	Capital Projects	
Receipts:				
Property Taxes	\$ 70,856	\$ 86,588	\$ -	\$ 157,444
Intergovernmental	59,392	301,587	-	360,979
Fines, Licenses and Permits	21,750	240	-	21,990
Earnings on Investments	1,241	219	-	1,460
Miscellaneous	8,008	25	-	8,033
Total Receipts	161,247	388,659	-	549,906
Disbursements:				
Security of Persons & Property	49,251	102,091	-	151,342
Leisure Time Activities	1,500	-	-	1,500
Community Environment	286	-	-	286
Transportation	-	36,131	-	36,131
General Government	72,788	325	-	73,113
Capital Outlay	36,888	271,475	72	308,435
Total Disbursements	160,713	410,022	72	570,807
Total Receipts Over/(Under) Disbursements	534	(21,363)	(72)	(20,901)
Fund Cash Balance, January 1, 2010	353,961	204,431	15,524	573,916
Restricted	-	183,068	15,452	198,520
Unassigned	354,495	-	-	354,495
Fund Cash Balance, December 31, 2010	\$ 354,495	\$ 183,068	\$ 15,452	\$ 553,015

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
For the Year Ended December 31, 2010**

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals- (Memorandum Only)</u>
Receipts:			
Charges for Services	\$ 504,596	\$ -	\$ 504,596
Miscellaneous	5,031	-	5,031
Total Receipts	<u>509,627</u>	<u>-</u>	<u>509,627</u>
Disbursements:			
Personal Services	224,881	-	224,881
Transportation	3,717	-	3,717
Contractual Services	74,141	-	74,141
Supplies and Materials	85,817	-	85,817
Other	3,323	-	3,323
Total Disbursements	<u>391,879</u>	<u>-</u>	<u>391,879</u>
Excess of Receipts Over/(Under) Disbursements	117,748	-	117,748
Non-Operating Receipts:			
Interest	13,782	-	13,782
Fines and Forfeitures	-	10,243	10,243
Total Non-Operating Receipts	13,782	10,243	24,025
Non-Operating Disbursements:			
Capital Outlay	(109,109)	-	(109,109)
Debt Service:			
Principal Retirement	(111,122)	-	(111,122)
Interest and Fiscal Charges	(76,243)	-	(76,243)
Distribution of Fines and Forfeitures	-	(9,061)	(9,061)
Total Nonoperating Disbursements	<u>(296,474)</u>	<u>(9,061)</u>	<u>(305,535)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	(164,944)	1,182	(163,762)
Fund Cash Balance, January 1, 2010	<u>547,974</u>	<u>272</u>	<u>548,246</u>
Fund Cash Balance, December 31, 2010	<u>\$ 383,030</u>	<u>\$ 1,454</u>	<u>\$ 384,484</u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

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, parks operations, 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, 2011 and 2010**

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:

- Water Plant Project Fund- This fund receives loans and grants for the improvement of the Village water plant.

Proprietary Fund Types:

Enterprise Funds: To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

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.
- 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.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Fiscal Officer, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

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

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

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

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2010 and 2011. However, those fund balances are available for appropriation.

2. Appropriations

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

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS- (Continued)

3. Encumbrances

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

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). The Village must adhere to these commitments unless the 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.
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.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. FUND BALANCE - (Continued)

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.

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>2011</u>	<u>2010</u>
Demand Deposits	\$616,320	\$612,990
Certificates of Deposit	<u>258,269</u>	<u>324,509</u>
Total	<u>\$874,589</u>	<u>\$937,499</u>

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

3. PROPERTY TAXES

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

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

3. PROPERTY TAXES-(Continued)

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

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

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

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

<u>Fund:</u>	<u>2011 Budgeted vs Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 99,800	\$ 154,319	\$ 54,519
Special Revenue	174,555	168,365	(6,190)
Capital Projects	400,000	-	(400,000)
Enterprise Fund	754,000	563,759	(190,241)

<u>Fund:</u>	<u>2011 Budgeted vs Actual Budgetary Basis Disbursements</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General Fund	\$ 326,400	\$ 166,901	\$ 159,499
Special Revenue	188,655	119,943	68,712
Capital Projects	15,000	-	15,000
Enterprise Fund	944,050	663,237	280,813

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

4. BUDGETARY ACTIVITY-(Continued)

<u>Fund:</u>	<u>2010 Budgeted vs Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 200,482	\$161,247	\$ (39,235)
Special Revenue	480,568	388,659	(91,909)
Capital Projects	295,000	-	(295,000)
Enterprise Fund	754,000	523,409	(230,591)

<u>Fund:</u>	<u>2010 Budgeted vs Actual Budgetary Basis Disbursements</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General Fund	\$ 200,482	\$ 160,713	\$ 39,769
Special Revenue	482,418	410,022	72,396
Capital Projects	15,452	72	15,380
Enterprise Fund	993,000	688,353	304,647

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. These plans provide 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 2011 and 2010 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 2011.

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.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

6. RISK MANAGEMENT – (Continued)

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

7. DEBT

Debt outstanding at December 31, 2011 is as follows:

<u>Description:</u>	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bond, Series A	\$ 134,000	4.50%
Sewer Mortgage Revenue Bond, Series B	741,077	4.50%
OWDA#3311	138,601	2.00%
OWDA#3891	27,056	1.50%
OWDA#4028	1,353,894	2.00%
OPWC#CR528	9,912	0.00%
OPWC#CT59D	22,614	0.00%
General Obligation Loan-equipment	4,500	2.60%
	<u>\$ 2,431,654</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 ending in 2025.

The Village obtained a \$4,500 bank loan at 2.60% in December 2011 to purchase parking meters. The loan requires monthly payments beginning January 2012 and matures June 2013.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

7. DEBT – (Continued)

Principal and interest requirements for loans outstanding at December 31, 2011 is as follows:

<u>Year Ended</u>	Sewer Bonds Series A	Sewer Bonds Series B	OWDA #3311	OWDA #3891	OWDA #4028
2012	\$15,030	\$80,035	\$11,766	\$1,477	\$73,727
2013	14,625	80,915	11,766	1,477	73,727
2014	14,220	80,665	11,766	1,477	73,727
2015	14,815	80,643	11,766	1,477	73,727
2016	14,365	81,213	11,766	1,477	73,727
2017-2021	72,725	393,158	58,830	7,385	368,635
2022-2026	29,890	175,370	39,801	7,385	368,635
2027-2031	-	-	-	7,385	368,635
2032-2036	-	-	-	2,214	221,811
Total	\$175,670	\$971,999	\$157,461	\$31,754	\$1,696,351

<u>Year Ended</u>	OPWC CR528	OPWC CT59D	Equipment Loan
2012	\$3,304	\$1,675	\$3,060
2013	3,304	1,675	1,530
2014	3,304	1,675	-
2015	-	1,675	-
2016	-	1,675	-
2017-2021	-	8,375	-
2022-2026	-	5,864	-
Total	\$9,912	\$22,614	\$4,590

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

8. CHANGE IN ACCOUNTING PRINCIPLE

For 2010, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on the fund balances as previously reported.

9. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

Rockefeller Building
614 W Superior Ave, Suite1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

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

INDEPENDENT ACCOUNTANTS' 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 the financial statements of the Village of Somerset, Perry County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated October 19, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and implemented GASB Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

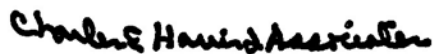
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-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, providing an opinion 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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.

We intend this report solely for the information and use of management, the audit committee, members of the Village Council, and others within the Village. We intend it for no one other than these specified parties.



Charles E. Harris and Associates, Inc.

October 19, 2012

**VILLAGE OF SOMERSET
PERRY COUNTY
Schedule of Findings
December 31, 2011 and 2010**

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

Finding Number 2011-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 2011 and 2010:

- Certificates of deposit purchases were recorded as capital outlays.
- Intergovernmental receipts of \$81,669 were recorded as property tax receipts in 2010.
- Mayor's Court activity was not recorded in the agency fund for 2010 or 2011. Only the general fund and special revenue fund portion of Mayor's Court fines was recorded in those respective funds.
- Expenses to maintain Village roadways in the amount of \$36,131 were classified as Security of Persons expenses rather than Transportation expenses in 2010.
- A grant and the related expenditures of \$219,918 were not recorded.
- Interest earned on investments of more than \$10,000 had not been recorded for several years.
- A bank loan of \$4,500 was recorded as charges for services in 2011.

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

We recommend that the expenditures be recorded in accordance with the classifications found in the *Ohio Village Officers' Handbook* 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 party and/or using analytical reviews for comparison of current year to prior year numbers.

Management Response:

The Village has hired a new fiscal officer and will be switching to a new accounting system January 1, 2013. We will also be getting 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
Schedule of Findings
December 31, 2011 and 2010**

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

Finding Number 2011-SOM-02 - Material Weakness

The Village had \$258,269 invested in certificates of deposit at the end of 2011 and \$324,509 invested at the end of 2010. 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 2010 or 2011.

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.

**VILLAGE OF SOMERSET
PERRY COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended December 31, 2011 and 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-01	ORC 5705.39- Appropriations exceed estimated resources	Yes	

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
FEBRUARY 7, 2013