

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

Financial Statements
(Audited)

For The Years Ended
December 31, 2004 and 2003

PAM CHAMBERS, CLERK/TREASURER



**Auditor of State
Betty Montgomery**

Members of Council and Mayor
Village of Mt. Sterling
Mt. Sterling, Ohio

We have reviewed the *Independent Auditor's Report* of the Village of Mt. Sterling, Madison County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2003 through December 31, 2004. 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 Mt. Sterling is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 28, 2005

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**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Members of Council and Mayor
Village of Mt. Sterling
1 S. London Street
Mt. Sterling, Ohio 43143

We have audited the accompanying financial statements of the Village of Mt. Sterling, Madison County, Ohio, as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village of Mt. Sterling's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the Village of Mt. Sterling prepares its financial statements on the basis of accounting prescribed or permitted by Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances and fund balances of the Village of Mt. Sterling, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the Village of Mt. Sterling's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Trimble, Julian & Grube, Inc.
March 31, 2005

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

COMBINED STATEMENT OF CASH FUND BALANCES
ALL FUND TYPES
DECEMBER 31, 2004 AND 2003

<u>Cash and Cash Equivalents</u>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 588,431	\$ 736,964
Total Cash and Cash Equivalents	<u>\$ 588,431</u>	<u>\$ 736,964</u>
<u>Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General Fund	\$ 254,696	\$ 441,363
Special Revenue Funds	<u>75,960</u>	<u>45,234</u>
Total Governmental Fund Types	<u>330,656</u>	<u>486,597</u>
<u>Proprietary Fund Type:</u>		
Enterprise Funds	<u>227,788</u>	<u>219,282</u>
<u>Fiduciary Fund Type:</u>		
Agency Funds	<u>29,987</u>	<u>31,085</u>
Total Fund Balances	<u>\$ 588,431</u>	<u>\$ 736,964</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 558,950	\$ -	\$ 558,950
Intergovernmental	125,663	100,768	226,431
Special assessments	-	72	72
Charges for services	23,047	-	23,047
Fines, licenses, and permits	4,030	125	4,155
Interest	10,694	149	10,843
Miscellaneous	3,166	4,438	7,604
Total cash receipts	<u>725,550</u>	<u>105,552</u>	<u>831,102</u>
Cash disbursements:			
Current:			
Security of persons and property	568,000	-	568,000
Leisure time activities	70,458	15,286	85,744
Community environment	5,299	-	5,299
Transportation	-	79,540	79,540
General government	240,460	8,000	248,460
Total cash disbursements	<u>884,217</u>	<u>102,826</u>	<u>987,043</u>
Total cash receipts over/(under) cash disbursements	<u>(158,667)</u>	<u>2,726</u>	<u>(155,941)</u>
Other financing receipts/(disbursements):			
Operating transfers in	-	28,000	28,000
Operating transfers out	(28,000)	-	(28,000)
Total other financing receipts/(disbursements)	<u>(28,000)</u>	<u>28,000</u>	<u>-</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(186,667)	30,726	(155,941)
Cash fund balances, January 1, 2004	<u>441,363</u>	<u>45,234</u>	<u>486,597</u>
Cash fund balances, December 31, 2004	<u>\$ 254,696</u>	<u>\$ 75,960</u>	<u>\$ 330,656</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE AND
SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating cash receipts:			
Charges for services	\$ 870,369	\$ -	\$ 870,369
Total operating cash receipts	<u>870,369</u>	<u>-</u>	<u>870,369</u>
Operating cash disbursements:			
Personal services	199,601	-	199,601
Employee fringe benefits	73,882	-	73,882
Contractual services	113,319	-	113,319
Supplies and materials	56,177	13,739	69,916
Capital outlay	54,230	-	54,230
Miscellaneous	3,146	-	3,146
Total operating cash disbursements	<u>500,355</u>	<u>13,739</u>	<u>514,094</u>
Operating income/(loss)	<u>370,014</u>	<u>(13,739)</u>	<u>356,275</u>
Nonoperating cash receipts/(disbursements):			
Other nonoperating receipts	311	23,456	23,767
Debt service:			
Principal	(184,417)	-	(184,417)
Interest	(177,402)	-	(177,402)
Other nonoperating disbursements	-	(10,815)	(10,815)
Total nonoperating cash receipts/(disbursements)	<u>(361,508)</u>	<u>12,641</u>	<u>(348,867)</u>
Net income/(loss)	8,506	(1,098)	7,408
Cash fund balances, January 1, 2004	<u>219,282</u>	<u>31,085</u>	<u>250,367</u>
Cash fund balances, December 31, 2004	<u>\$ 227,788</u>	<u>\$ 29,987</u>	<u>\$ 257,775</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004

Fund Types	County Certified Unencumbered Cash	Receipts				Disbursements				Variance Favorable (Unfavorable)		
		Budget	Total Estimated Resources	Actual 2004 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements		Encumbrances Outstanding at 12/31/04	Total
Governmental:												
General	\$ 440,579	\$ 1,297,754	\$ 725,550	\$ (131,625)	\$ 784	\$ 1,028,343	\$ 1,029,127	\$ 912,217	\$ -	\$ 912,217	\$ 116,910	
Special Revenue	45,234	204,773	133,552	(25,987)	-	135,475	135,475	102,826	-	102,826	32,649	
Proprietary:												
Enterprise	219,211	1,045,398	870,680	44,493	-	947,767	947,767	862,174	71	862,245	85,522	
Total	\$ 705,024	\$ 2,547,925	\$ 1,729,782	\$ (113,119)	\$ 784	\$ 2,111,585	\$ 2,112,369	\$ 1,877,217	\$ 71	\$ 1,877,288	\$ 235,081	
(Memorandum Only)												

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 636,551	\$ -	\$ 636,551
Intergovernmental	142,065	110,947	253,012
Charges for services	20,989	-	20,989
Fines, licenses, and permits	5,466	345	5,811
Interest	15,648	447	16,095
Miscellaneous	3,598	3,711	7,309
Total cash receipts	<u>824,317</u>	<u>115,450</u>	<u>939,767</u>
Cash disbursements:			
Current:			
Security of persons and property	565,844	5,029	570,873
Leisure time activities	60,070	45,715	105,785
Community environment	2,914	-	2,914
Transportation	-	131,309	131,309
General government	255,532	60	255,592
Total cash disbursements	<u>884,360</u>	<u>182,113</u>	<u>1,066,473</u>
Total cash receipts (under) cash disbursements	<u>(60,043)</u>	<u>(66,663)</u>	<u>(126,706)</u>
Other financing receipts/(disbursements):			
Operating transfers in	-	3,716	3,716
Operating transfers out	-	(4,620)	(4,620)
Advances in	-	15,000	15,000
Advances out	-	(15,000)	(15,000)
Total other financing receipts/(disbursements)	<u>-</u>	<u>(904)</u>	<u>(904)</u>
Excess of cash receipts and other financing receipts (under) cash disbursements and other financing disbursements	(60,043)	(67,567)	(127,610)
Cash fund balances, January 1, 2003	<u>501,406</u>	<u>112,801</u>	<u>614,207</u>
Cash fund balances, December 31, 2003	<u>\$ 441,363</u>	<u>\$ 45,234</u>	<u>\$ 486,597</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE AND
SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating cash receipts:			
Charges for services	\$ 903,567	\$ -	\$ 903,567
Total operating cash receipts	<u>903,567</u>	<u>-</u>	<u>903,567</u>
Operating cash disbursements:			
Personal services	175,076	-	175,076
Employee fringe benefits	86,741	-	86,741
Contractual services	147,060	-	147,060
Supplies and materials	54,655	8,521	63,176
Capital outlay	15,600	-	15,600
Miscellaneous	2,392	-	2,392
Total operating cash disbursements	<u>481,524</u>	<u>8,521</u>	<u>490,045</u>
Operating income/(loss)	<u>422,043</u>	<u>(8,521)</u>	<u>413,522</u>
Nonoperating cash receipts/(disbursements):			
Other nonoperating receipts	1,450	20,372	21,822
Debt service:			
Principal	(170,607)	-	(170,607)
Interest	(204,772)	-	(204,772)
Other nonoperating disbursements	-	(9,585)	(9,585)
Total nonoperating cash receipts/(disbursements)	<u>(373,929)</u>	<u>10,787</u>	<u>(363,142)</u>
Income before operating transfers	48,114	2,266	50,380
Transfers in	<u>904</u>	<u>-</u>	<u>904</u>
Net income	49,018	2,266	51,284
Cash fund balances, January 1, 2003	<u>170,264</u>	<u>28,819</u>	<u>199,083</u>
Cash fund balances, December 31, 2003	<u>\$ 219,282</u>	<u>\$ 31,085</u>	<u>\$ 250,367</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003

Fund Types	Receipts				Disbursements						Variance Favorable (Unfavorable)	
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2003 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding at 12/31/03		Total
Governmental:												
General	\$ 499,515	\$ 939,366	\$ 1,438,881	\$ 824,317	\$ (115,049)	\$ 1,891	\$ 975,422	\$ 977,313	\$ 884,360	\$ 784	\$ 885,144	\$ 92,169
Special Revenue	112,705	177,315	290,116	134,166	(43,149)	96	258,706	258,802	201,733	-	201,733	57,069
Proprietary:												
Enterprise	170,072	907,018	1,077,090	905,921	(1,097)	192	902,038	902,230	856,903	-	856,903	45,327
Total	\$ 782,292	\$ 2,023,699	\$ 2,806,087	\$ 1,864,404	\$ (159,295)	\$ 2,179	\$ 2,136,166	\$ 2,138,345	\$ 1,942,996	\$ 784	\$ 1,943,780	\$ 194,565
(Memorandum Only)												

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 1 - DESCRIPTION OF THE ENTITY

The Village of Mt. Sterling (the "Village") is a body politic and corporate 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 operates under a council-mayor form of government and provides the following services: police protection, water and sewer utility services, park operations, as well as other general governmental services.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials have direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant of the Village's accounting policies are described below.

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Village are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The following fund types are used by the Village.

GOVERNMENTAL FUND TYPES:

General Fund

The general fund is used to account for all activities of the Village not required to be included in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Village had the following significant Special Revenue Funds:

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

PROPRIETARY FUND TYPE:

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 charges for services from residents to cover the cost of providing this utility and repayment of Ohio Water Department Authority loans.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility and repayment of Ohio Water Department Authority loans.

FIDUCIARY FUND TYPES:

Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Water Deposit Fund - This fund receives deposits from new customers when water and sewer services are initiated.

Municipal Soccer League - This fund receives donations for the Community soccer league.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. BASIS OF ACCOUNTING

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

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

C. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget unless waived by the County Commissioners, the certificate of estimate resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated, except for Agency funds. The primary level of budgetary control was at the fund, department, personal services and other disbursements. Any budgetary modifications at these levels may only be made by resolution of the Village's Council. The Village had numerous budgetary modifications during 2004 and 2003.

Tax Budget:

A budget of estimated cash receipts and disbursements is 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 unless waived by the County Commissioners. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates. The Madison County Commissioners waived the 2004 and 2003 filing of the tax budget.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Village determined that receipts collected will be greater than or less than the prior estimate, and the Budget Commission find the revised estimate to be reasonable. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The Village legally adopted appropriation amendment measures during 2004 and 2003.

Encumbrances:

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Village had outstanding encumbrances at December 31, 2004 and 2003.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. CASH AND CASH EQUIVALENTS

For reporting purposes, the Village considers “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest income earned and received by the Village totaled \$10,843 and \$16,095 for the years ended December 31, 2004 and 2003, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

Fixed assets are not capitalized in any of the Village’s funds. Instead, capital acquisition and construction costs are recorded as expenditures in the fund in the year expended. The costs of normal maintenance and repairs, along with improvements, are also expended. Depreciation is not recorded.

F. UNPAID VACATION AND SICK LEAVE

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

G. INTERFUND TRANSACTIONS

During the course of normal operations, the Village had transactions between funds. The most significant include transfers of resources from one fund to another fund and advances. The resources transferred are to be expended for operations by the necessary fund and are recorded as operating transfers. The resources advanced are temporary loans of cash.

H. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis are recorded when received in accordance with the Village’s cash basis method of accounting.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned “Total (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Interfund-type eliminations have not been made in the aggregation of this data.

The Village Clerk/Treasurer is attempting to monitor the appropriations more frequently throughout the year and at year end with Council approval.

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains all individual cash balances in bank accounts and short-term cash equivalents classified as “Cash and Cash Equivalents” on the Combined Statement of Cash Fund Balances.

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:

	2004	2003
Deposits: Demand deposits	\$ 578,600	\$ 270,100
Deposits: Certificate of deposits	-	457,157
Investments:		
Investments in STAR Ohio	9,831	9,707
Total Cash and Cash Equivalents	\$ 588,431	\$ 736,964

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution’s public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form. Investments in STAR Ohio are valued at amounts reported by the State Treasurer. Investments are reported as assets. Accordingly, purchase of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 4 - INTERFUND TRANSACTIONS

The Village had the following interfund transactions for the year ended December 31, 2004 and 2003:

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>2004:</u>		
General Fund	\$ -	\$ 28,000
<u>Special Revenue Funds:</u>		
Street Construction, Maintenance & Repair	20,000	-
Special Assessments	<u>8,000</u>	<u>-</u>
Total	<u>\$ 28,000</u>	<u>\$ 28,000</u>
<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>2003:</u>		
<u>Special Revenue Funds:</u>		
FEMA	\$ -	\$ 4,620
Street Construction, Maintenance & Repair	<u>3,716</u>	<u>-</u>
Total	<u>3,716</u>	<u>4,620</u>
<u>Enterprise Funds:</u>		
Water	452	-
Sewer	<u>452</u>	<u>-</u>
Total	<u>904</u>	<u>-</u>
Total	<u>\$ 4,620</u>	<u>\$ 4,620</u>

The transfers for the years ended December 31, 2004 and 2003 were made in accordance with the Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 4 - INTERFUND TRANSACTIONS - (Continued)

The Village had the following advances during the year ended December 31, 2003:

<u>Fund Type/Fund</u>	<u>Advance In</u>	<u>Advance Out</u>
General Fund	\$ 15,000	\$ 15,000
<u>Special Revenue Fund:</u>		
Parks and Recreation	<u>15,000</u>	<u>15,000</u>
Total	<u>\$ 30,000</u>	<u>\$ 30,000</u>

There were no advances during 2004.

NOTE 5 - DEBT OBLIGATIONS

At December 31, 2004, debt obligation consisted of the following issuances:

<u>Description</u>	<u>Balance at 12/31/04</u>	<u>Balance at 12/31/03</u>
1997 Ohio Water Development Authority (OWDA) note for water improvements due in semi-annual installments of \$4,928.77 through 2017 bearing interest at 4.040%.	\$ 65,592	\$ 61,537
1989 (OWDA) note for water improvements due in semi-annual installments of \$77,851 through 2014 bearing interest at 8.26%.	962,226	1,032,633
1989 (OWDA) note for sewer due in semi-annual installments of \$84,239 through 2013 bearing interest at 8.40%.	994,419	1,072,783
1988 (OWDA) note for sewer improvements due in semi-annual installments of \$33,071 through 2013 bearing interest at 7.11%.	<u>393,259</u>	<u>428,905</u>
Balance December 31, 2004 and 2003	<u>\$ 2,415,496</u>	<u>\$ 2,595,858</u>

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 5 - DEBT OBLIGATIONS - (Continued)

	<u>Balance at</u> <u>12/31/03</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at</u> <u>12/31/04</u>
1997 OWDA - Water	\$ 61,537	\$ 4,055	\$ -	\$ 65,592
1989 OWDA - Water	1,032,633	-	(70,407)	962,226
1989 OWDA - Sewer	1,072,783	-	(78,364)	994,419
1988 OWDA - Sewer	<u>428,905</u>	<u>-</u>	<u>(35,646)</u>	<u>393,259</u>
Total	<u>\$ 2,595,858</u>	<u>\$ 4,055</u>	<u>\$ (184,417)</u>	<u>\$ 2,415,496</u>

	<u>Balance</u> <u>12/31/02</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/03</u>
1997 OWDA - Water (restated)	\$ 57,255	\$ 4,282	\$ -	\$ 61,537
1989 OWDA - Water	1,097,668	-	(65,035)	1,032,633
1989 OWDA - Sewer	1,145,073	-	(72,290)	1,072,783
1988 OWDA - Sewer	<u>462,187</u>	<u>-</u>	<u>(33,282)</u>	<u>428,905</u>
Total	<u>\$ 2,762,183</u>	<u>\$ 4,282</u>	<u>\$ (170,607)</u>	<u>\$ 2,595,858</u>

The principal and interest requirements to retire the debt obligations outstanding at December 31, 2004, are as follows:

Year Ending December 31,	1997 OWDA Water		1989 OWDA Water		1989 OWDA Sewer		1988 OWDA Sewer	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ -	\$ -	\$ 38,111	\$ 39,740	\$ 40,761	\$ 43,478	\$ 19,090	\$ 13,981
2006	-	-	79,370	76,332	88,370	80,108	39,538	26,604
2007	-	-	85,926	69,776	95,794	72,684	42,350	23,792
2008	-	-	93,024	62,678	103,840	64,638	45,364	20,778
2009	-	-	100,708	54,994	112,562	55,916	48,586	17,556
2010 - 2014	33,569	10,798	565,087	135,572	553,092	120,820	198,331	33,166
2015 - 2017	<u>40,194</u>	<u>4,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTALS	<u>\$ 73,763</u>	<u>\$ 15,074</u>	<u>\$ 962,226</u>	<u>\$ 439,092</u>	<u>\$ 994,419</u>	<u>\$ 437,644</u>	<u>\$ 393,259</u>	<u>\$ 135,877</u>

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 5 - DEBT OBLIGATIONS - (Continued)

During 2002, the 1997 OWDA Water note, had a change in financing agreements due to a change in the amount of disbursed funds. This change caused the Village to have over paid principal and interest on the loan in prior years, and thus, OWDA has issued the Village a credit against future payments until 2008 by reducing interest paid and adding it to the principal outstanding. In 2008, the Village will be required again to make semi-annual payments to retire this note. Accordingly, no principal and interest payments are being shown in the above schedule until 2008.

During the years ended December 31, 2004 and 2003, OWDA granted the Village an interest credit enhancement in the amounts of \$14,515 and \$14,942, respectively.

NOTE 6 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In 2004, the Village entered into capitalized lease for two vehicles.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2004.

Fiscal Year <u>Ending June 30,</u>	<u>Payments</u>
2005	\$ 17,154
2006	17,154
2007	17,154
2008	17,154
2009	<u>17,154</u>
Total minimum lease payments	85,770
Less: amount representing interest	<u>(8,303)</u>
Present value of minimum lease payments	<u>\$ 77,467</u>

Under the basis of accounting utilized by the Village, these capitalized assets are not reflected on the financial statements and payments are recorded in the Capital outlay line item on the financial statements.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

NOTE 7 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the County. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State and are reflected in the accompanying financial statements as Intergovernmental Receipts. Real property taxes are payable annually or semiannually to the County. 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.

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

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

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

NOTE 8 - LOCAL INCOME TAX

This locally levied tax of 1.0% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to the net income of business organizations located within the Village. Tax receipts are accounted for in the Village's General Fund. The Village collected \$522,025 in 2004 and \$611,863 in 2003 in income tax receipts.

NOTE 9 - RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

NOTE 9 - RETIREMENT SYSTEMS - (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, members of OP&F contribute 10% of their wages to the OP&F. The Village contributes an amount equal to 19.5% of their wages. OPERS members contribute 8.5% of their gross salaries. The Village contributes an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2004 and 2003.

NOTE 10 - RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with over 600 government entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceeded the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages 100% rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

The Village also provides health insurance to full-time employees through a private carrier.

NOTE 11 - CONTINGENT LIABILITY

LITIGATION

The Village is not currently involved in litigation that the Village's legal counsel anticipates a loss.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of Council and Mayor
Village of Mt. Sterling
1 S. London Street
Mt. Sterling, Ohio 43143

We have audited the financial statements of the Village of Mt. Sterling as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Mt. Sterling’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of Mt. Sterling in a separate letter dated March 31, 2005.

Members of Council and Mayor
Village of Mt. Sterling

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Mt. Sterling's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Village of Mt. Sterling in a separate letter dated March 31, 2005.

This report is intended solely for the information of the Council of the Village of Mt. Sterling and its management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
March 31, 2005

**VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-VOMS-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	Yes	N/A



**Auditor of State
Betty Montgomery**

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VILLAGE OF MT. STERLING

MADISON 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 12, 2005**