

VILLAGE OF MOUNT STERLING
MADISON COUNTY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005



Mary Taylor, CPA

Auditor of State

Village Council
Village of Mt Sterling
1 South London Street
Mt. Sterling, Ohio 43143-0222

We have reviewed the *Independent Auditors' Report* of the Village of Mt. Sterling, Madison County, prepared by Holbrook & Manter, for the audit period January 1, 2005 through December 31, 2006. 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 *Independent Auditors' Report* 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 *Independent Auditors' Report* also includes a disclaimer of 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 Mt Sterling is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 11, 2008

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INDEPENDENT AUDITORS' REPORT

Village Council
Village of Mount Sterling
Madison County

We were engaged to audit the accompanying financial statements of the Village of Mount Sterling, Madison County, Ohio, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management.

As discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State of Ohio 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. 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 the new GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State.

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, 2006 and 2005 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, 2006 and 2005, or its changes in financial position for the years then ended.

The Village's financial statements contain undeterminable posting errors, unreconciled balances, and lack of documentation during 2006 and 2005. Because of these inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amounts recorded as revenues, expenditures, and fund balances in the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund for the years ended December 31, 2006 and 2005.

Because of the significance of the matters stated in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the prior paragraph for the years ended December 31, 2006 and 2005.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008 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.



Certified Public Accountants

March 27, 2008

VILLAGE OF MOUNT STERLING
MADISON COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES-
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>GOVERNMENTAL FUND TYPES</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 41,879	\$ 0	\$ 41,879
Municipal income tax	536,937	0	536,937
Intergovernmental	140,120	102,692	242,812
Charges for services	22,807	0	22,807
Fines, licenses, and permits	82,454	2,561	85,015
Earnings on Investments	10,657	367	11,024
Miscellaneous	13,205	200	13,405
	<u>848,059</u>	<u>105,820</u>	<u>953,879</u>
Total cash receipts			
Cash disbursements:			
Current:			
Security of persons and property	570,624	0	570,624
Leisure time activities	40,019	676	40,695
Community environment	62,414	0	62,414
Transportation	0	72,605	72,605
General government	250,194	2,192	252,386
	<u>923,251</u>	<u>75,473</u>	<u>998,724</u>
Total cash disbursements			
Total receipts over (under) cash disbursements	<u>(75,192)</u>	<u>30,347</u>	<u>(44,845)</u>
Fund cash balances January 1, 2006	<u>222,870</u>	<u>76,037</u>	<u>298,907</u>
Fund cash balances, December 31, 2006	<u>\$ 147,678</u>	<u>\$ 106,384</u>	<u>\$ 254,062</u>

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

VILLAGE OF MOUNT STERLING
MADISON COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN
FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES-
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Proprietary Fund Enterprise</u>	<u>Fiduciary Fund Agency</u>	<u>Total (Memorandum Only)</u>
Operating cash receipts:			
Charges for services	\$ 914,988	\$ 0	\$ 914,988
Total operating cash receipts	<u>914,988</u>	<u>0</u>	<u>914,988</u>
Operating cash disbursements:			
Personal services	202,150	0	202,150
Employee fringe benefits	57,914	0	57,914
Contractual services	201,670	0	201,670
Supplies and materials	57,033	0	57,033
Capital Outlay	121,655	0	121,655
Other	3,423	0	3,423
Total operating cash disbursements	<u>643,845</u>	<u>0</u>	<u>643,845</u>
Operating income	<u>271,143</u>	<u>0</u>	<u>271,143</u>
Non-operating cash receipts:			
Other non-operating receipts	0	14,845	14,845
Miscellaneous	1,100	0	1,100
Other financing sources	25,407	0	25,407
Fines collected	0	29,199	29,199
Debt proceeds	3,572	0	3,572
Total non-operating cash receipts	<u>30,079</u>	<u>44,044</u>	<u>74,123</u>
Non-operating cash disbursements:			
Redemption of principal	215,496	0	215,496
Interest and other fiscal charges	179,518	0	179,518
Fines distributed	0	29,199	29,199
Other financing uses	0	12,507	12,507
Total non-operating cash disbursements	<u>395,014</u>	<u>41,706</u>	<u>436,720</u>
Net receipts over (under) disbursements	(93,792)	2,338	(91,454)
Fund cash balances, January 1, 2006	<u>332,558</u>	<u>29,932</u>	<u>362,490</u>
Fund cash balances, December 31, 2006	<u>\$ 238,766</u>	<u>\$ 32,270</u>	<u>\$ 271,036</u>

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

VILLAGE OF MOUNT STERLING
MADISON COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES-
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>GOVERNMENTAL FUND TYPES</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 37,817	\$ 200	\$ 38,017
Municipal income tax	560,989	0	560,989
Intergovernmental	137,056	108,468	245,524
Charges for services	31,560	0	31,560
Fines, licenses, and permits	7,093	230	7,323
Earnings on investments	3,634	340	3,974
Miscellaneous	9,449	0	9,449
Total cash receipts	<u>787,598</u>	<u>109,238</u>	<u>896,836</u>
Cash disbursements:			
Current:			
Security of persons and property	515,321	4,971	520,292
Leisure time activities	36,689	8,761	45,450
Transportation	0	94,639	94,639
General government	266,925	1,279	268,204
Total cash disbursements	<u>818,935</u>	<u>109,650</u>	<u>928,585</u>
Total receipts over (under) cash disbursements	<u>(31,337)</u>	<u>(412)</u>	<u>(31,749)</u>
Other financing receipts (disbursements):			
Transfers - in	0	489	489
Transfers - out	(489)	0	(489)
Advance - in	4,511	4,511	9,022
Advance - out	(4,511)	(4,511)	(9,022)
Total other financing receipts (disbursements)	<u>(489)</u>	<u>489</u>	<u>0</u>
Excess of cash receipts and other financing receipts over cash disbursements and other financing disbursements	<u>(31,826)</u>	<u>77</u>	<u>(31,749)</u>
Fund cash balances January 1, 2005	<u>254,696</u>	<u>75,960</u>	<u>330,656</u>
Fund cash balances, December 31, 2005	<u>\$ 222,870</u>	<u>\$ 76,037</u>	<u>\$ 298,907</u>

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

VILLAGE OF MOUNT STERLING
MADISON COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN
FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES-
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Proprietary Fund Enterprise</u>	<u>Fiduciary Fund Agency</u>	<u>Total (Memorandum Only)</u>
Operating cash receipts:			
Charges for services	\$ 947,143	\$ 0	\$ 947,143
Total operating cash receipts	<u>947,143</u>	<u>0</u>	<u>947,143</u>
Operating cash disbursements:			
Personal services	196,820	0	196,820
Employee fringe benefits	57,142	0	57,142
Contractual services	135,878	0	135,878
Supplies and materials	59,477	0	59,477
Capital Outlay	29,779	0	29,779
Other	2,600	0	2,600
Total operating cash disbursements	<u>481,696</u>	<u>0</u>	<u>481,696</u>
Operating income	<u>465,447</u>	<u>0</u>	<u>465,447</u>
Non-operating cash receipts:			
Other non-operating receipts	0	11,893	11,893
Miscellaneous	3,165	0	3,165
Other financing sources	27,512	0	27,512
Fines collected	0	743	743
Debt proceeds	3,818	0	3,818
Total non-operating cash receipts	<u>34,495</u>	<u>12,636</u>	<u>47,131</u>
Non-operating cash disbursements:			
Redemption of principal	199,349	0	199,349
Interest and other fiscal charges	195,823	0	195,823
Fines distributed	0	743	743
Other financing uses	0	11,948	11,948
Total non-operating cash disbursements	<u>395,172</u>	<u>12,691</u>	<u>407,863</u>
Net receipts over disbursements	104,770	(55)	104,715
Fund cash balances, January 1, 2005	<u>227,788</u>	<u>29,987</u>	<u>257,775</u>
Fund cash balances, December 31, 2005	<u>\$ 332,558</u>	<u>\$ 29,932</u>	<u>\$ 362,490</u>

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

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

- A. **Description of the Entity** - The Village of Mount Sterling, Madison County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village 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.

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

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

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

- C. **Cash and Investments** - Certificates of deposit and the money fund accounts are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

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

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Special Revenue Funds

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

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

State Highway Fund

This fund receives gasoline and motor vehicle tax money for constructing, maintaining and repairing state highways within the Village.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Enterprise Funds

These funds are used to 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 Operating Fund

This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Operating Fund

This fund receives charges for services from residents to cover the cost of providing this utility.

Fiduciary Funds

These funds, for which the Village has acting 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.

Mayor's Court – Mayors Court was administered and maintained within Madison County until December of 2005, at which time the Village began administering and maintaining Mayor's Court within the Village. Prior to December 2005, the revenue was received through the County and recorded into the General Fund. As of December 2005, the Village is maintaining an Agency Fund, Mayor's Court receipts and disbursements are being recorded as required.

- E. 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 must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 - 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 Madison County Budget Commission must also 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. The Village had no outstanding encumbrances at December 31, 2006 and 2005.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

- F. **Property, Plant and Equipment** - Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements
- G. **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.

NOTE 2 - 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:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 400,270	\$ 650,979
High Yield Savings	114,185	281
STAR Ohio	<u>10,643</u>	<u>10,137</u>
Total investments	<u>124,828</u>	<u>10,418</u>
Total deposits and investments	<u>\$ 525,098</u>	<u>\$ 661,397</u>

Deposits - The Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

Investments - In addition, the investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 3 - BUDGETARY ACTIVITY:-

Budgetary activity for the year ending December 31, 2006 was as follows:

2006 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 906,516	\$ 848,059	\$ (58,457)
Special Revenue	111,984	105,820	(6,164)
Enterprise	1,171,180	945,067	(226,113)
Agency	<u>10,000</u>	<u>44,044</u>	<u>34,044</u>
Total	<u>\$ 2,199,680</u>	<u>\$ 1,942,990</u>	<u>\$ (256,690)</u>

2006 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 955,908	\$ 923,251	\$ 32,657
Special Revenue	154,596	75,473	79,123
Enterprise	1,296,108	1,038,859	257,249
Agency	<u>13,000</u>	<u>41,706</u>	<u>(28,706)</u>
Total	<u>\$ 2,419,612</u>	<u>\$ 2,079,289</u>	<u>\$ 340,323</u>

Contrary to Ohio law, actual receipts were less than estimated resources during 2006 in the General fund, Special Revenue funds, and the Enterprise funds by \$52,016, \$6,163, and \$226,113 respectively.

Contrary to Ohio law, during 2006, the budgetary expenditures exceeded the appropriation authority in the Agency fund by \$28,706.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 3 - BUDGETARY ACTIVITY:-(continued)

Budgetary activity for the year ending December 31, 2005 was as follows:

2005 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 762,073	\$ 792,109	\$ 30,036
Special Revenue	111,870	114,238	2,368
Enterprise	879,351	981,638	102,287
Agency	<u>10,000</u>	<u>12,636</u>	<u>2,636</u>
Total	<u>\$ 1,763,294</u>	<u>\$ 1,900,621</u>	<u>\$ 137,327</u>

2005 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 906,192	\$ 823,935	\$ 82,257
Special Revenue	137,147	114,161	22,986
Enterprise	917,160	876,868	40,292
Agency	<u>12,000</u>	<u>12,691</u>	<u>(691)</u>
Total	<u>\$ 1,972,499</u>	<u>\$ 1,827,655</u>	<u>\$ 144,844</u>

Contrary to Ohio law, during 2006, the budgetary expenditures exceeded the appropriation authority in the Agency fund by \$691.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 4 - PROPERTY TAX:-

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

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

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

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

NOTE 5 - DEBT:-

Debt outstanding at December 31, 2006, was as follows:

	12/31/2006
Ohio Water Development Authority Sewer Loan 7.11%	\$ 314,183
Ohio Water Development Authority Sewer Loan 8.40%	817,391
Ohio Water Development Authority Water Improvements 8.26%	803,485
Ohio Water Development Authority Authority Water Improvement Loan 4.04%	72,982
	\$ 2,008,041
Total	

During 2002, the 1997 OWDA Water Improvement loan had a change in financing 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 . 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 semiannual payments to retire this note. Accordingly, no principal or interest payments are being shown in the below schedule until 2008.

During the years ended 2006 and 2005, OWDA granted the Village an interest credit enhancement in the amount of \$25,407 and \$27,512, respectively.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 5 - DEBT:- (continued)

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

Year		1997		1989		1989		1988		
Ending		OWDA		OWDA		OWDA		OWDA		
December 31		Water		Water		Sewer		Sewer		Total
2007	\$	0	\$	77,851	\$	84,239	\$	33,071	\$	195,161
2008		4,069		155,702		168,477		66,141		394,389
2009		9,939		155,702		168,477		66,141		400,259
2010		9,857		212,377		168,478		66,142		456,854
2011		9,857		160,383		168,477		66,142		404,859
2012-2016		49,286		327,900		336,955		99,211		813,352
2016-2021		4,929		0		0		0		4,929
Total		87,937		1,089,915		1,095,103		396,848		2,669,803
Less: Interest Expense		14,955		286,430		277,712		82,665		661,762
	\$	72,982	\$	803,485	\$	817,391	\$	314,183	\$	2,008,041

NOTE 6 - CAPITALIZED LEASES:-

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, 2006.

Fiscal Year	
Ending June 30,	
2007	\$ 17,154
2008	<u>17,153</u>
Total minimum lease payments	34,307
Less amount representing interest	(2,577)
Present value of minimum lease payments	\$ <u>31,730</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 MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 7 - LOCAL INCOME TAXES:-

This locally levied tax of 1.00 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of Mount Sterling and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to net income of business organizations operating within the Village. The tax receipts are credited to the General Fund and amounted to \$536,937 in 2006 and \$560,989 in 2005.

NOTE 8 - RETIREMENT SYSTEMS:-

The Villages law enforcement officers belong to the Police & Firemen's Disability & Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, participants contributed 10% of their salaries to OP&F. The Village contributed an amount equal to 19.50% of police participants' wages and 24% of fire participants' wages. For 2006 and 2005, PERS members contributed 9.0% and 8.5% of their gross salaries, respectively. The Village contributed an amount equal to 13.70% and 13.55% of participants' gross salaries for 2006 and 2005, respectively. The Village has paid all contributions required through December 31, 2006.

NOTE 9 - 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.



**Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards***

Village Council
Village of Mount Sterling
Madison County

We were engaged to audit the accompanying financial statements of the Village of Mount Sterling, Madison County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued a disclaimer of opinion due to miscellaneous posting errors, unreconciled balances, and lack of documentation, within our report dated March 27, 2008. We also noted the Village had followed accounting practices the Auditor of State of Ohio prescribes rather than accounting principles generally accepted in the United States of America within the report.

Internal Control 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting as items 2006-003, 2006-004, and 2006-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

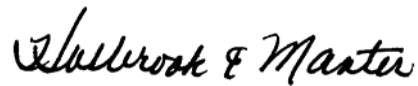
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-003 and 2006-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated March 27, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Government'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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001, 2006-002 and 2006-003.

We did note certain noncompliance or other matters that we reported to the Government's management in a separate letter dated March 27, 2008. This report is intended solely for the information and use of the Village Council and the Clerk, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

March 27, 2008

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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

Finding Number	2006-001
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Noncompliance Citation – Prior Certification of Expenditures

Section 5705.41 (D), Ohio Revised Code, states that no subdivision shall make any contract or order any expenditure of money unless a certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Furthermore, contracts and orders for expenditures lacking prior certification should be null and void unless, for expenditures under \$3,000, the Council obtains from the fiscal officer a certificate stating that there was at the time of the making of the contracts or orders a sufficient sum appropriated. The council, by resolution, then may authorize the issuance of a warrant for the payments of the amount due.

During our testing of expenditures, there were instances in which funds were obligated without prior or any certification. There was no evidence of subsequent resolutions authorizing payment for such obligations. It was also noted during our testing, that certificates that were completed did not always have a date. Expenditures without prior certification, could result in expenditures exceeding appropriations, although, no such instances were noted. We recommend that a purchase order be completed before all expenditures are initiated and that they be dated when completed to certify that the monies are available at that time. Alternatively, the Village might consider using then and now certificates or blanket certificates, allowed by the O.R.C. for expenditures meeting certain criteria.

Officials’ Response

During 2007, a new fiscal officer has taken over and the Village has implemented a new procedure for purchase orders that properly encumbers funds prior to purchase.

Finding Number	2006-002
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Noncompliance Citation- Amending or Supplementing Appropriations

Ohio Revised Code, Section 5705.40, states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. Transfers may be made by resolution or ordinance from one appropriation item to another.

During our compliance testing procedures, we noted that the Village properly amended and supplemented appropriations internally, but did not certify the amended appropriations with the county budget commission. We recommend that the Village submit any amendments to the county for approval.

Officials’ Response

The Village’s Fiscal Officer is now providing additional information for the Council’s review and sign off during the monthly meetings.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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

Finding Number	2006-003
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Noncompliance Citation – Transfer of Funds
Significant Deficiency - Material Weakness – Transfer of Funds

Ohio Revised Code, Section 5705.14, 5705.15, and 5705.16, states which transfers are allowable and which are not allowable. No transfer can be made from one fund of a subdivision to any other fund unless it meets one of the exceptions noted in the Ohio Revised Sections noted above or the proper court approval is received.

During our testing, we noted that transfers were made from funds other than the General Fund to supplement certain fund balances. These transfers were made inappropriately and were not intended as advances between these funds. We recommend referring to the Ohio Revised Code and the Village officers Handbook provided by the Auditor of State when completing transfers to make sure they are being handled properly.

Officials’ Response

Village is now aware of the restrictions on transferring from one fund to the other and is properly handling any transfers that are made and an adjustment was made to correct the prior fund balances for those transfers that were made inappropriately during the audit period.

Finding Number	2006-004
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Significant Deficiency – Internal Control and Review Procedures

Although the Council receives and reviews a select number of reports from the Fiscal Officer of the Village for approval on a monthly basis, the Village has not established formal procedures to reasonably assure completeness, and accuracy of the monthly reporting. During our testing and analysis, we noted that Village Council or the Village Administrator is not reviewing the numerical check sequence prior to approving of purchases. In addition, neither party is reviewing the bank statement for proper inclusion of authorized expenditures within the cancelled checks or electronic fund withdraws.

The Village should carefully review this information and make appropriate inquiries to help determine the integrity of the financial information. When performing such review, the officials’ signatures or initials and the date should be affixed to the documents examined and it should be noted in the monthly minutes that the officials’ thoroughly reviewed and approved those documents. In addition, we also recommend that the numerical check sequence be noted in the minutes and signed off of by the Council each month.

Officials’ Response

The Village Fiscal Officer will provide the bank reconciliations and bank statements to the Trustees for their review and approval at each months meeting. The Village will also document and approve the review of those reports and the numerical sequence of the checks within the monthly minutes.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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

Finding Number	2006-005
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Significant Deficiency - Material Weakness – Incomplete Bank Reconciliations

The Fiscal Officer did not accurately perform monthly bank reconciliations. Manual ledger ending fund balances were not properly reconciled to monthly bank statements. Failure to accurately reconcile bank balances to the manual cash journal resulted in errors in the accounting system occurring and going undetected by management.

The cash journal should be reconciled to the bank statements with an explanation of reconciling items. The Board of Trustees should review monthly bank reconciliations and sign them to evidence their review to assist with the verification of accountability over all Village assets.

Officials' Response

The Village intends to complete monthly bank reconciliations, with an explanation of any and all reconciling items and provide them to the Village Council for their review and approval. This review process will assist in the monitoring of the reconciliations balancing each month to the proper fund balances and the Village's accountability over the assets.



Mary Taylor, CPA
Auditor of State

VILLAGE OF MOUNT 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
JUNE 24, 2008