

VILLAGE OF MOUNT STERLING
MADISON COUNTY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Village of Mount Sterling, Madison County, prepared by Holbrook & Manter, for the period January 1, 2007 through December 31, 2008. 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 Accountants' 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 Accountants' Report* 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 Mount Sterling is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 10, 2010

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INDEPENDENT ACCOUNTANTS' 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, 2008 and 2007. These financial statements are the responsibility of the Village's management.

The Village's financial statements contain undeterminable posting errors, unreconciled balances, and lack of documentation during 2008 and 2007. 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, 2008 and 2007.

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

Because of the effects of the matters discussed in the third 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 above for the Village of Mount Sterling, Madison County, as of December 31, 2008 and 2007.

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 a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2010 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 engagement.

A handwritten signature in black ink that reads 'Holbrook & Manter' in a cursive script.

Certified Public Accountants

July 26, 2010

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, 2008

	GOVERNMENTAL FUND TYPES		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:-			
Local taxes	\$ 47,848	\$ 0	\$ 47,848
Municipal income tax	523,579	0	523,579
Intergovernmental	155,534	90,285	245,819
Special assessments	0	2,193	2,193
Charges for services	521	2,300	2,821
Fines, licenses, and permits	48,595	2,252	50,847
Earnings on Investments	1,239	276	1,515
Miscellaneous	32,483	1,849	34,332
Total cash receipts	809,799	99,155	908,954
Cash disbursements:-			
Current:-			
Security of persons and property	641,480	1,094	642,574
Public health services	1,781	0	1,781
Leisure time activities	8,189	3,825	12,014
Community environment	4,419	0	4,419
Basic utility services	0	500	500
Transportation	0	95,898	95,898
General government	258,243	0	258,243
Capital outlay	32,248	0	32,248
Debt service:-			
Principal payment	10,289	0	10,289
Interest and fiscal charges	1,485	0	1,485
Total cash disbursements	958,134	101,317	1,059,451
Total receipts over (under) cash disbursements	(148,335)	(2,162)	(150,497)
Other financing uses:-			
Sale of note	32,248	0	32,248
Advances out	(2,402)	0	(2,402)
Total other financing receipts/(disbursements)	29,846	0	29,846
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(118,489)	(2,162)	(120,651)
Fund cash balances January 1, 2008	134,044	121,394	255,438
Fund cash balances, December 31, 2008	\$ 15,555	\$ 119,232	\$ 134,787

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, 2008

	Proprietary Fund <u>Enterprise</u>	Fiduciary Fund <u>Agency</u>	Total (Memorandum Only) <u>Only</u>
Operating cash receipts:-			
Charges for services	\$ 791,769	\$ 18,271	\$ 810,040
Fines, licenses and permits	0	1,362	1,362
Miscellaneous	1,250	0	1,250
Total operating cash receipts	<u>793,019</u>	<u>19,633</u>	<u>812,652</u>
Operating cash disbursements:-			
Personal services	209,994	0	209,994
Employee fringe benefits	82,348	0	82,348
Contractual services	231,749	0	231,749
Supplies and materials	40,211	0	40,211
Other	15,501	0	15,501
Total operating cash disbursements	<u>579,803</u>	<u>0</u>	<u>579,803</u>
Operating income	<u>213,216</u>	<u>19,633</u>	<u>232,849</u>
Non-operating cash receipts:-			
Intergovernmental	98,190	0	98,190
Sale of note	369,127	0	369,127
Miscellaneous	1,440	0	1,440
Fines collected	0	6,533	6,533
Total non-operating cash receipts	<u>468,757</u>	<u>6,533</u>	<u>475,290</u>
Non-operating cash disbursements:-			
Redemption of principal	258,779	0	258,779
Interest and other fiscal charges	126,911	0	126,911
Fines distributed	0	6,533	6,533
Capital outlay	390,173	0	390,173
Total non-operating cash disbursements	<u>775,863</u>	<u>6,533</u>	<u>782,396</u>
Income/(loss) before interfund transfers and advances	(93,890)	19,633	(74,257)
Advances-in	3,803	0	3,803
Advances-out	(1,401)	0	(1,401)
Net receipts over (under) disbursements	(91,488)	19,633	(71,855)
Fund cash balances, January 1, 2008	<u>91,376</u>	<u>74,192</u>	<u>165,568</u>
Fund cash balances, December 31, 2008	<u>\$ (112)</u>	<u>\$ 93,825</u>	<u>\$ 93,713</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, 2007

	GOVERNMENTAL FUND TYPES		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:-			
Local taxes	\$ 50,547	\$ 0	\$ 50,547
Municipal income tax	563,057	0	563,057
Intergovernmental	132,771	103,421	236,192
Charges for services	23,620	0	23,620
Fines, licenses, and permits	46,216	2,804	49,020
Earnings on investments	5,280	946	6,226
Miscellaneous	17,078	333	17,411
Total cash receipts	838,569	107,504	946,073
Cash disbursements:-			
Current;-			
Security of persons and property	587,234	1,000	588,234
Leisure time activities	40,556	0	40,556
Community environment	5,699	0	5,699
Basic utility services	0	500	500
Transportation	0	88,879	88,879
General government	218,714	2,115	220,829
Total cash disbursements	852,203	92,494	944,697
Total receipts over (under) cash disbursements	(13,634)	15,010	1,376
Fund cash balances January 1, 2007	147,678	106,384	254,062
Fund cash balances, December 31, 2007	\$ 134,044	\$ 121,394	\$ 255,438

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, 2007

	Proprietary Fund <u>Enterprise</u>	Fiduciary Fund <u>Agency</u>	Total (Memorandum Only) <u> </u>
Operating cash receipts:-			
Charges for services	\$ 896,164	\$ 41,922	\$ 938,086
Fines, licenses and permits	0	0	0
Miscellaneous	0	0	0
	<u>896,164</u>	<u>41,922</u>	<u>938,086</u>
Total operating cash receipts	<u>896,164</u>	<u>41,922</u>	<u>938,086</u>
Operating cash disbursements:-			
Personal services	214,667	0	214,667
Employee fringe benefits	69,609	0	69,609
Contractual services	304,224	0	304,224
Supplies and materials	51,714	0	51,714
Other	16,248	0	16,248
	<u>656,462</u>	<u>0</u>	<u>656,462</u>
Total operating cash disbursements	<u>656,462</u>	<u>0</u>	<u>656,462</u>
Operating income	<u>239,702</u>	<u>41,922</u>	<u>281,624</u>
Non-operating cash receipts:-			
Intergovernmental	34,650	0	34,650
Miscellaneous	268	0	268
Sale of note	1,749	0	1,749
Fines collected	0	7,642	7,642
	<u>36,667</u>	<u>7,642</u>	<u>44,309</u>
Total non-operating cash receipts	<u>36,667</u>	<u>7,642</u>	<u>44,309</u>
Non-operating cash disbursements:-			
Redemption of principal	232,174	0	232,174
Interest and other fiscal charges	140,332	0	140,332
Capital outlay	51,253	0	51,253
Fines distributed	0	7,642	7,642
	<u>423,759</u>	<u>7,642</u>	<u>431,401</u>
Total non-operating cash disbursements	<u>423,759</u>	<u>7,642</u>	<u>431,401</u>
Net receipts over disbursements	(147,390)	41,922	(105,468)
Fund cash balances, January 1, 2007	<u>238,766</u>	<u>32,270</u>	<u>271,036</u>
Fund cash balances, December 31, 2007	<u><u>\$ 91,376</u></u>	<u><u>\$ 74,192</u></u>	<u><u>\$ 165,568</u></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, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUN

- 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 is directed by a publicly-elected seven-member Council. The Village provides general governmental services, including water, sewer and refuse utilities, pool and park operations (leisure time activities), and police 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.

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:

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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

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 – Mayor's 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.

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, 2008 and 2007.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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

- 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 Village's bank reconciliation had undeterminable errors as of December 31; therefore, the carrying amount of cash and investments noted below was adjusted to agree with the financial statements at December 31 and is as follows:

	<u>2008</u>	<u>2007</u>
Deposits;		
Demand deposits	\$ 187,269	\$ 378,724
Investments;		
High yield savings	29,752	31,090
STAR Ohio	<u>11,479</u>	<u>11,192</u>
Total investments	<u>41,231</u>	<u>42,282</u>
Total deposits and investments	<u>\$ 228,500</u>	<u>\$ 421,006</u>

Deposits - The Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (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.

Investments - Investments in STAR Ohio 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, 2008 AND 2007

NOTE 3 - BUDGETARY ACTIVITY:-

Budgetary activity for the year ending December 31, 2008 was as follows:

2008 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 805,545	\$ 842,047	\$ 36,502
Special Revenue	102,543	99,155	(3,388)
Enterprise	891,329	1,265,579	374,250
Agency	<u>19,633</u>	<u>26,166</u>	<u>6,533</u>
Total	\$ <u>1,819,050</u>	\$ <u>2,232,947</u>	\$ <u>413,897</u>

2008 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 902,815	\$ 960,536	\$ (57,721)
Special Revenue	142,491	101,317	41,174
Enterprise	1,019,925	1,357,067	(337,142)
Agency	<u>12,000</u>	<u>6,533</u>	<u>5,467</u>
Total	\$ <u>2,077,231</u>	\$ <u>2,425,453</u>	\$ (348,222)

Contrary to Ohio law, actual receipts were less than estimated resources during 2008 in the Special Revenue funds by \$3,388.

Contrary to Ohio law, during 2008, the budgetary expenditures exceeded the appropriation authority in the General Fund by \$57,721 and in the Enterprise Funds by \$337,142.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 3 - BUDGETARY ACTIVITY:- (continued)

Budgetary activity for the year ending December 31, 2007 was as follows:

2007 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 831,232	\$ 838,569	\$ 7,337
Special Revenue	112,322	107,504	(4,818)
Enterprise	1,121,207	932,831	(188,376)
Agency	<u>15,000</u>	<u>49,564</u>	<u>34,564</u>
Total	\$ <u>2,079,761</u>	\$ <u>1,928,468</u>	\$ (<u>151,293</u>)

2007 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 900,488	\$ 852,203	\$ 48,285
Special Revenue	165,221	92,494	72,727
Enterprise	1,246,788	1,080,221	166,567
Agency	<u>20,000</u>	<u>7,642</u>	<u>12,358</u>
Total	\$ <u>2,332,497</u>	\$ <u>2,032,560</u>	\$ <u>299,937</u>

Contrary to Ohio law, actual receipts were less than estimated resources during 2007 in the Special Revenue funds and the Enterprise funds by \$4,818 and \$188,376 respectively.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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.

The tangible personal property tax is being phased out over the next year.

NOTE 5 - DEBT:-

Debt outstanding at December 31, 2008, was as follows:

	Principal Balance 12/31/2008	Interest Rate
Ohio Water Development Authority	\$ 66,816	4.04%
Ohio Water Development Authority	223,463	7.11%
Ohio Water Development Authority	609,374	8.40%
Ohio Water Development Authority	617,437	8.26%
Ohio Water Development Authority	370,878	2.00%
Citizens National Bank	21,959	4.35%
Total	\$ 1,909,927	

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 was required again to make semiannual payments to retire this note.

During the years ended 2008 and 2007, OWDA granted the Village an interest credit enhancement in the amount of \$20,656 and \$23,126, respectively.

During 2007, the Village entered into a loan agreement with the Ohio Water Development Authority to replace a water main in the Village. The amount outstanding at December 31, 2008 was \$370,878 and the loan was still open with no amortization schedule. Prior to the date of the audit report the remaining \$129,122 was disbursed to the Village and at that time an amortization schedule was provided to the Village. The individual yearly amounts due per the amortization schedule were not used in the table below because the amounts would not tie to the amount outstanding at December 31, 2008 but would tie to the \$500,000 or the full amount of the loan. The first payment was due on January 1, 2010 and the final payment is due on July 1, 2034.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 5 - DEBT:- (continued)

During 2008, the Village entered into a loan agreement with Citizens National Bank for the purchase of a 2008 Ford Expedition. The payments are made annually and were to begin in 2009, however the Village made their first payment in 2008. The final payment is due January 28, 2011. The total loan amount is \$32,248 with annual payments of \$11,711 and a fixed interest rate of 4.35%. As of December 31, 2008, the total outstanding balance was \$21,959.

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

<u>Year Ending December 31,</u>	<u>1997 OWDA Water</u>	<u>1989 OWDA Water</u>	<u>1989 OWDA Sewer</u>	<u>1988 OWDA Sewer</u>	<u>2008 CNB</u>	<u>Total</u>
2009	\$ 9,857	\$ 155,702	\$ 168,478	\$ 66,142	\$ 11,711	\$ 411,890
2010	9,857	155,702	168,478	66,142	11,711	411,890
2011	9,857	155,702	168,478	66,142	0	400,179
2012	9,857	155,702	168,478	66,142	0	400,179
2013	9,858	155,702	84,239	0	0	249,799
2014-2018	<u>29,575</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,575</u>
Total	78,861	778,510	758,151	264,568	23,422	1,903,512
Less: Interest Expense	<u>(12,045)</u>	<u>(161,073)</u>	<u>(148,777)</u>	<u>(41,105)</u>	<u>(1,463)</u>	<u>(364,463)</u>
Principal on above loans	\$ <u>66,816</u>	\$ <u>617,437</u>	\$ <u>609,374</u>	\$ <u>223,463</u>	\$ <u>21,959</u>	\$ 1,539,049
2007 OWDA loan (no amortization available)						<u>370,878</u>
Total principal						\$ <u>1,909,927</u>

NOTE 6 - CAPITALIZED LEASES:-

In 2004, the Village entered into a capitalized lease for two vehicles. As of December 31, 2008 the lease was paid in full and the Village retained the vehicles.

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.

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 \$523,579 in 2008 and \$563,057 in 2007.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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 2008 and 2007, 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 2008 and 2007, PERS members contributed 10.0% and 9.5% of their gross salaries, respectively. The Village contributed an amount equal to 14.00% and 13.85% of participants' gross salaries for 2008 and 2007, respectively. The Village has paid all contributions required through December 31, 2008.

NOTE 9 - RISK MANAGEMENT:-

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retain 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had over 650 members as of December 31, 2008. The Village participates in this coverage.

In August, 2007, OGRMP formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of-pocket maximums. OPHC had 40 members as of December 31, 2008. The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan. Settlement amounts did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 9 - RISK MANAGEMENT:- (continued)

The Pool's audited financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2008 and 2007, and include amounts for both OPRRM and OPHC:

	<u>2008</u>	<u>2007</u>	
Assets	\$ 10,471,114	\$ 11,136,455	
Liabilities	<u>(5,286,781)</u>	<u>(4,273,553)</u>	
Members' Equity	<u>\$ 5,184,333</u>	<u>\$ 6,862,902</u>	

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

NOTE 10 - CONTINGENCIES:-

Litigation

The Village is currently involved in litigation with local School District Board of Education. Where the School District is seeking monetary damages as a result of all funds due under both the Enterprise Zone Agreement and applicable tax laws of the State of Ohio for tax revenue the Village received that potentially belongs to the District. The Village's legal counsel can not reasonably predict the outcome herein or on the overall financial position of the Village at December 31, 2009.



**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 financial statements of the Village of Mount Sterling, Madison County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007, and have issued a disclaimer of opinion due to undeterminable posting errors, unreconciled balances, and lack of documentation, within our report dated July 26, 2010. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion 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 the normal course of 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 a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting as items 2008-003, 2008-004, 2008-005 and 2008-006.

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

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 considered to be material weaknesses.

However, of the significant deficiencies described above, we believe finding numbers 2008-003, 2008-004, 2008-005 and 2008-006 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated July 26, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings as items 2008-001, 2008-002, 2008-007, 2008-008, 2008-009, and 2008-010.

We did note certain noncompliance or other matters that we reported to the Government's management in a separate letter dated July 26, 2010.

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 of Mount Sterling's responses and, accordingly, we express no opinion on them.

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



Certified Public Accountants

July 26, 2010

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2008-001
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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	2008-002
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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 and also intends on properly filing the amendments with the County.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

Finding Number	2008-003
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Significant Deficiency – Material Weakness - 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 inquires 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 Council 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.

Finding Number	2008-004
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Significant Deficiency - Material Weakness – Incomplete Bank Reconciliations

Monthly bank reconciliations were not accurately performed during 2008 and 2007. 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 Village Council 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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

Finding Number	2008-005
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Significant Deficiency - Material Weakness - Changes in Banking Regulations

Check Clearing for the 21st Century Act, also referred to as Check 21, became effective on October 28, 2004. This legislation allowed banks to process check information electronically and deliver a substitute check to the issuing bank instead of the original document. This new regulation may make identifying irregularities more difficult to detect because, once the check is presented for payment, the issuer will no longer be able to view the original paper check. Organizations will need to consider the effect, if any; this may have on their internal controls.

During our testing, we noted that copies of canceled checks were not maintained by the Village. We recommend that management consider how the Village's internal controls should be adapted to address these banking changes. In addition, the Village can review Auditor of State Bulletin 2004-010 at www.auditor.state.oh.us/Publications/ for more details about the State's recommendations in regards to Check 21.

Officials' Response

Subsequent to the end of the audit, the Village is receiving copies of all canceled checks from their financial institutions.

Finding Number	2008-006
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Significant Deficiency - Material Weakness - Outsourcing Payroll

During our audit, we noted the Village out-sources their payroll functions to a payroll specialist, which provided inconsistent and inaccurate documentation to the Village causing the financial information being reported in the year end preliminary financial statements to be misstated. The lack of consistency led to a lack of knowledge and understanding on the Village's part as to how to record each payroll in the accounting system. With adequate training, the Village will become familiar with the necessary procedure to input the payroll disbursements properly and efficiently.

It is important to mention that the financial statements referred to above are the responsibility of the Village and management even though the payroll function is currently outsourced. Careful attention to the Village's general ledger and financial statements should be maintained on a regular basis. The Village is also still responsible for assessing the risk of fraud and maintaining proper controls to mitigate the lack of segregation.

We recommend that the Village management receive an instructional understanding from the payroll specialist, specifically in reading and understanding the payroll reports provided to the Village. We recommend that this take place immediately or that other options be exercised, to help ensure that payroll disbursements are properly reflected on the financial statements through out the year.

Officials' Response

The Village transitioned to a different third party payroll processor who provides additional support and reports for the accurate postings into UAN. In addition, the Village is considering taking payroll in house and completing it in the UAN system.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

Finding Number	2008-007
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Noncompliance Citation- Fund Deficit

Ohio Rev. Code Section 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. Auditor of State Bulletin 97-003 states that inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis. The intent for cash advances is to require repayment within the current or succeeding year. Inter-fund cash advances are subject to the following requirements:

- 1) Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Revised Code. Advances, on the other hand, temporarily reallocate cash from one fund to another and involve an expectation of repayment;
- 2) In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- 3) The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- 4) Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
 - a. A specific statement that the transaction is an advance of cash, and
 - b. An indication of the money (fund) from which it is expected that repayment will be made.

The following funds were noted to have negative fund balances at December 31, 2008:

Date	Fund	Amount
December 31, 2008	Proprietary	\$ (112)

Officials' Response

The Village council will better monitor fund balances to ensure that money from one fund is not used to cover the expenses of another fund. The Village may also use cash advances to cover negative fund balances for temporary cash flow problems.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2008-008
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Noncompliance Citation – Appropriations Exceeding Estimated Resources

Ohio Revised Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue as certified by the county budget commission. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The Village’s appropriations exceeded estimated resources as of December 31, 2008, as outlined in Note 3 of the financial statements.

We recommend the Village Council and Fiscal Officer periodically review the Village’s appropriations versus certified estimated resources to identify and investigate any variances and to help monitor legal compliance. The Village officials should ensure that the Village has properly prepared and submitted all required budgetary documents to the county auditor. Also, each time appropriations are adopted or amended, the Village should ensure the certificate of the County Auditor is received indicating appropriations do not exceed certified resources.

Officials’ Response

When supplemental appropriations are approved by the Village Council the Fiscal Officer will submit the appropriate paperwork to the County Auditor.

Finding Number	2008-009
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Noncompliance Citation – Amending Certificates of Estimated Resources

Ohio Revised Code, Section 5705.36, allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

During our compliance testing, we noted that the Village did not amend estimated resources as outlined above causing the appropriations to exceed actual available resources during 2007. We recommend that the Fiscal Officer monitor estimated resources throughout the year and obtain amendments from the county budget commission as necessary.

Officials’ Response

The Village is aware of this issue and will attempt to monitor and modify the Village’s procedures to properly obtain amendments for the estimated resources as deemed necessary.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

Finding Number	2008-010
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Non Compliance Citation - Expenditures Exceed Appropriations

Ohio Revised Code, Section 5705.41 (B), requires that no subdivision or taxing unit is to expend money unless it has been appropriated. In addition, Section 5705.41 (C) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the Fiscal Officer that the amount required for the order or contract 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 encumbrances.

During compliance testing for 2008, it was noted that the budgetary expenditures exceeded appropriations throughout the year within the General Fund and the Enterprise Funds. This condition limits the effectiveness of the Village's compliance and budgetary controls and may result in overspending of the available funds. To prevent this from occurring, we recommend the Fiscal Officer properly budget to the appropriate funds within the General Fund and the Enterprise Fund types. In addition, Council should approve all increases to appropriations through a resolution and the Fiscal Officer then prepares an amendment to the original appropriation of expenditures.

Officials' Response

The Village is aware of this issue and will attempt to monitor and modify the Village's procedures to properly obtain amendments for the appropriations as deemed necessary.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	ORC 5705.41(D)- No subdivision is to expend monies unless it has been appropriated.	No	Repeated in the Schedule of Findings in the 2008 and 2007 audit report as Finding # 2008-001.
2006-002	ORC 5705.40- Amending or supplementing appropriations.	No	Repeated in the Schedule of Findings in the 2008 and 2007 audit report as Finding # 2008-002.
2006-003	ORC 5705.14- Transfer of Funds.	Yes	No Longer Valid.
2006-004	Significant Deficiency- Internal control and review procedures	No	Repeated in the Schedule of Findings in the 2008 and 2007 audit report as Finding # 2008-003.
2006-005	Significant Deficiency- Material Weakness- Incomplete Bank Reconciliations	No	Repeated in the Schedule of Findings in the 2008 and 2007 audit report as Finding # 2008-004.



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
NOVEMBER 23, 2010**