

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

Financial Statements
(Audited)

For The Years Ended
December 31, 2002 and 2001

PAM CHAMBERS, CLERK/TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Village of Mt. Sterling, Madison County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2001 to December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 23, 2003

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

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TRIMBLE, JULIAN & GRUBE, INC.

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Independent Auditor’s Report

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

We have audited the accompanying financial statements of the Village of Mt. Sterling, Madison County, Ohio, as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village of Mt. Sterling’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances and fund balances of the Village of Mt. Sterling, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2003, on our consideration of the Village of Mt. Sterling’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
April 4, 2003

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

COMBINED STATEMENT OF CASH FUND BALANCES
ALL FUND TYPES
DECEMBER 31, 2002 AND DECEMBER 31, 2001

<u>Cash and Cash Equivalents</u>	<u>2002</u>	<u>2001</u>
Cash and Cash Equivalents	\$ 813,290	\$ 959,623
Total Cash and Cash Equivalents	<u>\$ 813,290</u>	<u>\$ 959,623</u>
 <u>Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General Fund	\$ 501,406	\$ 505,325
Special Revenue Funds	<u>112,801</u>	<u>131,870</u>
Total Governmental Fund Types	<u>614,207</u>	<u>637,195</u>
 <u>Proprietary Fund Type:</u>		
Enterprise Funds	<u>170,264</u>	<u>290,513</u>
 <u>Fiduciary Fund Type:</u>		
Agency Funds	<u>28,819</u>	<u>31,915</u>
Total Fund Balances	<u>\$ 813,290</u>	<u>\$ 959,623</u>

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

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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Property and other local taxes	\$ 701,339	\$ 60,102	\$ 761,441
Intergovernmental	130,474	83,235	213,709
Charges for services	28,920	-	28,920
Fines, licenses, and permits	13,794	585	14,379
Interest	17,587	379	17,966
Miscellaneous	<u>3,915</u>	<u>-</u>	<u>3,915</u>
Total cash receipts	<u>896,029</u>	<u>144,301</u>	<u>1,040,330</u>
Cash disbursements:			
Current:			
Security of persons and property	581,987	63,255	645,242
Leisure time activities	55,802	17,913	73,715
Community environment	13,884	-	13,884
Transportation	-	80,418	80,418
General government	<u>248,275</u>	<u>1,784</u>	<u>250,059</u>
Total cash disbursements	<u>899,948</u>	<u>163,370</u>	<u>1,063,318</u>
Excess of cash receipts (under) cash disbursements	(3,919)	(19,069)	(22,988)
Cash fund balances, January 1, 2002	<u>505,325</u>	<u>131,870</u>	<u>637,195</u>
Cash fund balances, December 31, 2002	<u>\$ 501,406</u>	<u>\$ 112,801</u>	<u>\$ 614,207</u>

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

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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE AND
SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Agency	(Memorandum Only)
Operating cash receipts:			
Interest	\$ -	\$ 80	\$ 80
Charges for services	767,014	21,576	788,590
Other miscellaneous	4,490	6,200	10,690
Total operating cash receipts	771,504	27,856	799,360
Operating cash disbursements:			
Personal services	184,474	-	184,474
Employee fringe benefits	81,408	-	81,408
Contractual services	165,323	-	165,323
Supplies and materials	38,088	6,320	44,408
Capital outlay	21,343	13,129	34,472
Miscellaneous	1,310	-	1,310
Total operating cash disbursements	491,946	19,449	511,395
Operating income	279,558	8,407	287,965
Nonoperating cash (disbursements):			
Debt Service:			
Principal	(163,038)	-	(163,038)
Interest	(236,769)	-	(236,769)
Other financing disbursements	-	(11,503)	(11,503)
Total nonoperating cash (disbursements)	(399,807)	(11,503)	(411,310)
Net (loss)	(120,249)	(3,096)	(123,345)
Cash fund balances, January 1, 2002	290,513	31,915	322,428
Cash fund balances, December 31, 2002	\$ 170,264	\$ 28,819	\$ 199,083

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

VILLAGE OF MT. STERLING
MADISON COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

Fund Types	Receipts				Disbursements					Variance Favorable (Unfavorable)		
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2002 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2002 Appropriations	Total	Actual 2002 Disbursements		Encumbrances Outstanding at 12/31/02	
Governmental:												
General	\$ 502,551	\$ 897,449	\$ 1,400,000	\$ 896,029	\$ (1,420)	\$ -	\$ 953,757	\$ 953,757	\$ 899,948	\$ 1,891	\$ 901,839	\$ 51,918
Special Revenue	131,870	223,993	355,863	144,301	(79,692)	-	326,834	326,834	163,370	96	163,466	163,368
Proprietary:												
Enterprise	290,513	815,960	1,106,473	771,504	(44,456)	-	1,104,666	1,104,666	891,753	192	891,945	212,721
Total	\$ 924,934	\$ 1,937,402	\$ 2,862,336	\$ 1,811,834	\$ (125,568)	\$ -	\$ 2,385,257	\$ 2,385,257	\$ 1,955,071	\$ 2,179	\$ 1,957,250	\$ 428,007
(Memorandum Only)												

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

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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:			
Property and other local taxes	\$ 692,910	\$ 62,383	\$ 755,293
Intergovernmental	230,772	83,058	313,830
Charges for services	27,116	-	27,116
Fines, licenses, and permits	18,509	4,070	22,579
Interest	33,772	1,621	35,393
Donations and contributions	3,089	-	3,089
Refunds	12,019	-	12,019
Miscellaneous	9,519	179	9,698
Total cash receipts	1,027,706	151,311	1,179,017
Cash disbursements:			
Current:			
Security of persons and property	550,218	62,858	613,076
Public health services	11,272	-	11,272
Leisure time activities	82,716	1,500	84,216
Community environment	15,616	-	15,616
Transportation	-	176,072	176,072
General government	318,517	2,108	320,625
Total cash disbursements	978,339	242,538	1,220,877
Total cash receipts over/(under) cash disbursements	49,367	(91,227)	(41,860)
Other financing receipts/(disbursements):			
Operating transfers in	-	158,572	158,572
Operating transfers out	(158,572)	-	(158,572)
Advances in	2,000	24,528	26,528
Advances out	(24,528)	(2,000)	(26,528)
Total other financing receipts/(disbursements)	(181,100)	181,100	-
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(131,733)	89,873	(41,860)
Cash fund balances, January 1, 2001 (restated)	637,058	41,997	679,055
Cash fund balances, December 31, 2001	\$ 505,325	\$ 131,870	\$ 637,195

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

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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE AND
SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Interest	\$ -	\$ 136	\$ 136
Charges for services	803,417	17,580	820,997
Other miscellaneous	3,037	-	3,037
Total operating cash receipts	<u>806,454</u>	<u>17,716</u>	<u>824,170</u>
Operating cash disbursements:			
Personal services	165,242	-	165,242
Employee fringe benefits	70,791	-	70,791
Contractual services	142,544	-	142,544
Supplies and materials	81,289	335	81,624
Capital outlay	43,691	-	43,691
Miscellaneous	1,083	-	1,083
Total operating cash disbursements	<u>504,640</u>	<u>335</u>	<u>504,975</u>
Operating income	<u>301,814</u>	<u>17,381</u>	<u>319,195</u>
Nonoperating cash (disbursements):			
Debt Service:			
Principal	(156,124)	-	(156,124)
Interest	(253,169)	-	(253,169)
Other financing uses	-	(11,285)	(11,285)
Total nonoperating cash (disbursements)	<u>(409,293)</u>	<u>(11,285)</u>	<u>(420,578)</u>
Net Income (loss)	(107,479)	6,096	(101,383)
Cash fund balances, January 1, 2001 (restated)	<u>397,992</u>	<u>25,819</u>	<u>423,811</u>
Cash fund balances, December 31, 2001	<u>\$ 290,513</u>	<u>\$ 31,915</u>	<u>\$ 322,428</u>

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

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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2001

Fund Types	Receipts				Disbursements						Variance Favorable (Unfavorable)	
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2001 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2001 Appropriations	Total	Actual 2001 Disbursements	Encumbrances Outstanding at 12/31/01		Total
Governmental:												
General	\$ 600,000	\$ 1,342,994	\$ 1,942,994	\$ 1,029,706	\$ (313,288)	\$ -	\$ 1,338,166	\$ 1,338,166	\$ 1,161,439	\$ -	\$ 1,161,439	\$ 176,727
Special Revenue	43,138	324,400	367,538	334,411	10,011	-	376,200	376,200	244,538	-	244,538	131,662
Proprietary:												
Enterprise	399,505	901,100	1,300,605	806,454	(94,646)	-	1,502,787	1,502,787	913,933	-	913,933	588,854
Total (Memorandum Only)	\$ 1,042,643	\$ 2,568,494	\$ 3,611,137	\$ 2,170,571	\$ (397,923)	\$ -	\$ 3,217,153	\$ 3,217,153	\$ 2,319,910	\$ -	\$ 2,319,910	\$ 897,243

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1 - DESCRIPTION OF THE ENTITY

The Village of Mt. Sterling (the "Village") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village operates under a council-mayor form of government and provides the following services: police protection, water and sewer utility services, park operations, as well as other general governmental services.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION - FUND ACCOUNTING

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

GOVERNMENTAL FUNDS

General Fund

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

Special Revenue Funds

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

The Village had the following significant Special Revenue Funds:

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

Other Special Revenue Fund - This fund receives property tax monies for a fire levy, which in turn are remitted to the Mt. Sterling Joint Fire District to use to provide fire protection.

Enterprise Funds

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

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

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

Fiduciary Funds (Agency Funds)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

B. BASIS OF ACCOUNTING

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

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

C. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget unless waived by the County Commissioners, the certificate of estimate resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated, except for Agency funds. The primary level of budgetary control was at the fund level for 2002 and at the function level within each fund for 2001. Any budgetary modifications at these levels may only be made by resolution of the Village's Council. The Village had numerous budgetary modifications during 2002 and 2001.

Tax Budget:

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year unless waived by the County Commissioners. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates. The Madison County Commissioners waived the 2002 and 2001 filing of the tax budget.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

Estimated Resources:

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

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The Village legally adopted appropriation amendment measures during 2002 and 2001.

Encumbrances:

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

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Village had outstanding encumbrances at December 31, 2002. The Village had no outstanding encumbrances at December 31, 2001.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

D. CASH AND CASH EQUIVALENTS

For reporting purposes, the Village considers "Cash and Cash Equivalents" to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest income earned and received by the Village totaled \$18,046 and \$35,529 for the years ended December 31, 2002 and 2001, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

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

F. UNPAID VACATION AND SICK LEAVE

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

G. INTERFUND TRANSACTIONS

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

H. INTERGOVERNMENTAL REVENUES

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

I. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

NOTE 3 - COMPLIANCE AND PRIOR PERIOD ADJUSTMENT

A. Compliance

The following funds had appropriations in excess of estimated resources for the year ended December 31, 2001, in noncompliance with Ohio Revised Code Section 5705.39:

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<u>2001</u>			
<u>SPECIAL REVENUE FUNDS:</u>			
State Highway	\$ 5,508	\$ 6,500	\$ 992
Law Enforcement and Education	1,933	2,050	117
Special Assessment	6,700	10,500	3,800
Other Special Revenue	60,000	86,000	26,000
<u>ENTERPRISE FUNDS:</u>			
Water	410,901	497,279	86,378
Sewer	468,571	590,375	121,804

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 3 - COMPLIANCE AND PRIOR PERIOD ADJUSTMENT - (Continued)

B. Prior Period Adjustment

The Village is restating its General Fund and Agency - Cable TV Franchise fund balances at January 1, 2001. The prior period adjustment is due to cable franchise fees receipts originally set up as a separate agency fund rather than being recorded in the general fund. The prior period adjustment above had the following effects on the Village's fund balances:

	General	Agency
Balance 01/01/01	\$ 634,284	\$ 28,593
Prior Period Adjustments	2,774	(2,774)
Restated Balances 01/01/01	\$ 637,058	\$ 25,819

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2002	2001
Deposits: Demand deposits	\$ 469,353	\$ 379,578
Deposits: Certificate of deposits	334,337	330,990
Investments:		
Investments in STAR Ohio	9,600	249,055
Total Cash and Cash Equivalents	\$ 813,290	\$ 959,623

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 5 - INTERFUND TRANSACTIONS

The Village had the following interfund transactions for the year ended December 31, 2001:

Transfers In/Out

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 158,572
<u>Special Revenue Funds</u>		
Street Construction, Maintenance & Repair	147,600	-
Parks and Recreation	<u>10,972</u>	<u>-</u>
Total	<u>\$ 158,572</u>	<u>\$ 158,572</u>

The transfers for the year ended December 31, 2001 were made in accordance with the Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Advances In/Out

<u>Fund Type/Fund</u>	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$ 2,000	\$ 24,528
<u>Special Revenue Funds</u>		
Parks and Recreation	22,028	-
Special Assessment	<u>2,500</u>	<u>2,000</u>
Total	<u>\$ 26,528</u>	<u>\$ 26,528</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6 - DEBT OBLIGATIONS

At December 31, 2002, debt obligation consisted of the following issuances:

<u>Description</u>	<u>Balance at 12/31/02</u>	<u>Balance at 12/31/01</u>
1997 Ohio Water Development Authority (OWDA) note for water improvements due in semi-annual installments of \$4,928.77 through 2017 bearing interest at 4.040%.	\$ 73,763	\$ 78,969
1989 (OWDA) note for water improvements due in semi-annual installments of \$77,851 through 2014 bearing interest at 8.26%.	1,097,668	1,157,740
1989 (OWDA) note for sewer due in semi-annual installments of \$84,239 through 2013 bearing interest at 8.40%.	1,145,073	1,211,763
1988 (OWDA) note for sewer improvements due in semi-annual installments of \$33,071 through 2013 bearing interest at 7.11%.	<u>462,187</u>	<u>493,257</u>
Balance December 31, 2002	<u>\$ 2,778,691</u>	<u>\$ 2,941,729</u>

	<u>Balance at 12/31/01</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at 12/31/02</u>
1997 OWDA - Water	\$ 78,969	\$ -	\$ (5,206)	\$ 73,763
1989 OWDA - Water	1,157,740	-	(60,072)	1,097,668
1989 OWDA - Sewer	1,211,763	-	(66,690)	1,145,073
1988 OWDA - Sewer	<u>493,257</u>	<u>-</u>	<u>(31,070)</u>	<u>462,187</u>
Total	<u>\$ 2,941,729</u>	<u>\$ -</u>	<u>\$ (163,038)</u>	<u>\$ 2,778,691</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6 - DEBT OBLIGATIONS - (Continued)

	<u>Balance</u> <u>12/31/00</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/01</u>
1997 OWDA - Water	\$ 89,073	\$ -	\$ (10,104)	\$ 78,969
1989 OWDA - Water	1,213,230	-	(55,490)	1,157,740
1989 OWDA - Sewer	1,273,285	-	(61,522)	1,211,763
1988 OWDA - Sewer	<u>522,265</u>	<u>-</u>	<u>(29,008)</u>	<u>493,257</u>
Total	<u>\$ 3,097,853</u>	<u>\$ -</u>	<u>\$ (156,124)</u>	<u>\$ 2,941,729</u>

The principal and interest requirements to retire the debt obligations outstanding at December 31, 2002, is as follows:

Year Ending <u>December 31,</u>	1997 OWDA <u>Water</u>		1989 OWDA <u>Water</u>		1989 OWDA <u>Sewer</u>		1988 OWDA <u>Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ -	\$ -	\$ 32,517	\$ 45,334	\$ 34,689	\$ 49,550	\$ 16,640	\$ 16,431
2004	-	-	67,720	87,982	75,204	93,272	34,463	31,679
2005	-	-	73,314	82,388	81,522	86,956	36,913	29,228
2006	-	-	79,370	76,332	88,370	80,108	39,538	26,603
2007	-	-	85,926	69,776	95,792	72,684	42,350	23,792
2008 - 2012	33,569	10,798	548,572	229,941	614,066	228,324	261,430	69,280
2013 - 2017	<u>40,194</u>	<u>4,276</u>	<u>210,249</u>	<u>23,307</u>	<u>155,430</u>	<u>13,048</u>	<u>30,853</u>	<u>2,217</u>
TOTALS	<u>\$ 73,763</u>	<u>\$ 15,074</u>	<u>\$ 1,097,668</u>	<u>\$ 615,060</u>	<u>\$ 1,145,073</u>	<u>\$ 623,942</u>	<u>\$ 462,187</u>	<u>\$ 199,230</u>

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

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the Village entered into capitalized leases for a street sweeper, police cruiser and backhoe.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2002.

Fiscal Year <u>Ending June 30,</u>	General Long-Term <u>Obligations</u>
2003	\$ 28,832
2004	<u>13,832</u>
Total minimum lease payments	42,664
Less: amount representing interest	<u>(2,133)</u>
Present value of minimum lease payments	<u>\$ 40,531</u>

The police cruiser lease was paid off in 2002, the street sweeper lease will be paid off in 2003 and the backhoe lease in 2004.

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 8 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the County. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State and are reflected in the accompanying financial statements as Intergovernmental Receipts. Real property taxes are payable annually or semiannually to the County. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

NOTE 9 - LOCAL INCOME TAX

This locally levied tax of 1.0% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to the net income of business organizations located within the Village. Tax receipts are accounted for in an expendable trust and transferred based on Council ordinance allocation to various funds for operations. The Village collected \$663,461 in 2002 and \$658,651 in 2001 in income tax receipts.

NOTE 10 - RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of OP&F contribute 10% of their wages to the OP&F. The Village contributes an amount equal to 19.5% of their wages. OPERS members contribute 8.5% of their gross salaries. The Village contributes an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002 and 2001.

NOTE 11 - 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

NOTE 11 - RISK MANAGEMENT - (Continued)

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

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

NOTE 12 - CONTINGENT LIABILITY

LITIGATION

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

TRIMBLE, JULIAN & GRUBE, INC.

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

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

We have audited the financial statements of the Village of Mt. Sterling as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Mt. Sterling’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2002-VOMS-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village of Mt. Sterling in a separate letter dated April 4, 2003.

Members of Council and Mayor
Village of Mt. Sterling

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Mt. Sterling's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of Mt. Sterling in a separate letter dated April 4, 2003.

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

Trimble, Julian & Grube, Inc.
April 4, 2003

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2002-VOMS-001

Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.

It was noted during the audit that the total appropriations exceeded the total estimated resources as follows:

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<u>2001</u>			
<u>SPECIAL REVENUE FUNDS:</u>			
State Highway	\$ 5,508	\$ 6,500	\$ 992
Law Enforcement and Education	1,933	2,050	117
Special Assessment	6,700	10,500	3,800
Other Special Revenue	60,000	86,000	26,000
<u>ENTERPRISE FUNDS:</u>			
Water	410,901	497,279	86,378
Sewer	468,571	590,375	121,804

With appropriations exceeding estimated resources, the Village is unlawfully appropriating monies and thus could cause a negative fund balance by expending more monies in the treasury or in the process of collection.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring estimated resources and appropriations throughout the year and amending them as necessary.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-VOMS-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	No	Clerk/Treasurer will attempt to monitor more closely amended certificates obtained from County Auditor.
2000-VOMS-002	Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.	Yes	Finding No Longer Valid.
1999-VOMS-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	No	Clerk/Treasurer will attempt to monitor more closely amended certificates obtained from County Auditor.
1999-VOMS-002	Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.	Yes	Finding No Longer Valid.



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VILLAGE OF MT. STERLING

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 15, 2003**