

VILLAGE OF MOUNT STERLING
MADISON COUNTY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Village of Mount Sterling, Madison County, prepared by Holbrook & Manter, for the audit period January 1, 2009 through December 31, 2010. 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.

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

Dave Yost
Auditor of State

July 23, 2012

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INDEPENDENT ACCOUNTANTS' REPORT

Village Council
Village of Mount Sterling
Madison County

We have audited the accompanying financial statements of the Village of Mount Sterling, Madison County, Ohio, (the Village) as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

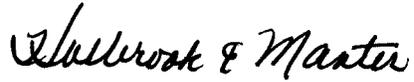
Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Mount Sterling, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012, on our consideration of the Village's internal control over financial reporting and on 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 the internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Certified Public Accountants

May 11, 2012

**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, 2010

	GOVERNMENTAL FUND TYPES		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:-			
Local taxes	\$ 47,405	\$ 0	\$ 47,405
Municipal income tax	442,143	0	442,143
Intergovernmental	132,552	85,408	217,960
Special assessments	6,134	2,600	8,734
Charges for services	222	0	222
Fines, licenses, and permits	52,393	645	53,038
Earnings on Investments	510	169	679
Miscellaneous	16,123	2,637	18,760
Total cash receipts	<u>697,482</u>	<u>91,459</u>	<u>788,941</u>
Cash disbursements:-			
Current:-			
Security of persons and property	501,990	0	501,990
Public health services	0	0	0
Leisure time activities	6,067	1,727	7,794
Community environment	3,336	0	3,336
Basic utility services	0	51	51
Transportation	0	111,033	111,033
General government	224,259	0	224,259
Debt service:-			
Principal payment	10,743	0	10,743
Interest and fiscal charges	1,032	0	1,032
Total cash disbursements	<u>747,427</u>	<u>112,811</u>	<u>860,238</u>
Total receipts over (under) cash disbursements	<u>(49,945)</u>	<u>(21,352)</u>	<u>(71,297)</u>
Other financing sources:-			
Sale of fixed assets	100	0	100
Total other financing receipts	<u>100</u>	<u>0</u>	<u>100</u>
Excess of cash receipts and other financing receipts (under) cash disbursements and other financing disbursements	<u>(49,845)</u>	<u>(21,352)</u>	<u>(71,197)</u>
Fund cash balances January 1, 2010	<u>52,851</u>	<u>126,546</u>	<u>179,397</u>
Fund cash balances, December 31, 2010	<u>\$ 3,006</u>	<u>\$ 105,194</u>	<u>\$ 108,200</u>

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN
FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Enterprise	Fiduciary Fund Agency	Total (Memorandum Only)
Operating cash receipts:-			
Charges for services	\$ 981,682	\$ 1,283	\$ 982,965
Fines, licenses and permits	0	865	865
Miscellaneous	303	0	303
Total operating cash receipts	<u>981,985</u>	<u>2,148</u>	<u>984,133</u>
Operating cash disbursements:-			
Personal services	196,931	0	196,931
Employee fringe benefit	95,419	0	95,419
Contractual services	188,736	0	188,736
Supplies and materials	46,100	0	46,100
Other	8,889	0	8,889
Total operating cash disbursements	<u>536,075</u>	<u>0</u>	<u>536,075</u>
Operating income	<u>445,910</u>	<u>2,148</u>	<u>448,058</u>
Non-operating cash receipts:-			
Sale of note	280,051	0	280,051
Miscellaneous	35,320	0	35,320
Fines collected	0	33,131	33,131
Other financing sources	15,138	0	15,138
Total non-operating cash receipts	<u>330,509</u>	<u>33,131</u>	<u>363,640</u>
Non-operating cash disbursements:-			
Redemption of principal	331,971	0	331,971
Interest and other fiscal charges	119,947	0	119,947
Fines distributed	0	34,472	34,472
Capital outlay	137,747	198	137,945
Total non-operating cash disbursements	<u>589,665</u>	<u>34,670</u>	<u>624,335</u>
Net receipts over (under) disbursements	186,754	609	187,363
Fund cash balances, January 1, 2010	<u>20,330</u>	<u>30,959</u>	<u>51,289</u>
Fund cash balances, December 31, 2010	<u><u>\$ 207,084</u></u>	<u><u>\$ 31,568</u></u>	<u><u>\$ 238,652</u></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, 2009

	GOVERNMENTAL FUND TYPES		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:-			
Local taxes	\$ 49,411	\$ 0	\$ 49,411
Municipal income tax	549,687	0	549,687
Intergovernmental	151,591	88,192	239,783
Special assessments	0	10,431	10,431
Charges for services	508	0	508
Fines, licenses, and permits	29,123	1,464	30,587
Earnings on investments	405	120	525
Miscellaneous	17,385	0	17,385
Total cash receipts	798,110	100,207	898,317
Cash disbursements:-			
Current:-			
Security of persons and property	532,763	2,000	534,763
Public health services	429	0	429
Leisure time activities	11,438	4,131	15,569
Community environment	2,193	0	2,193
Basic utility services	0	14	14
Transportation	0	88,592	88,592
General government	230,123	26	230,149
Total cash disbursements	776,946	94,763	871,709
Total receipts over (under) cash disbursements	21,164	5,444	26,608
Other financing receipts:-			
Advances in	2,402	0	2,402
Total other financing receipts	2,402	0	2,402
Excess of cash receipts and other financing receipts over/(under) cash disbursements	23,566	5,444	29,010
Fund cash balances January 1, 2009 (restated)	29,285	121,102	150,387
Fund cash balances, December 31, 2009	\$ 52,851	\$ 126,546	\$ 179,397

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, 2009**

	Proprietary Fund <u>Enterprise</u>	Fiduciary Fund <u>Agency</u>	Total (Memorandum Only) <u> </u>
Operating cash receipts:-			
Charges for services	\$ 889,688	\$ 6,396	\$ 896,084
Fines, licenses and permits	0	1,805	1,805
Miscellaneous	0	0	0
Total operating cash receipts	<u>889,688</u>	<u>8,201</u>	<u>897,889</u>
Operating cash disbursements:-			
Personal services	189,808	0	189,808
Employee fringe benefits	86,247	0	86,247
Contractual services	148,647	0	148,647
Supplies and materials	37,940	0	37,940
Other	7,794	0	7,794
Total operating cash disbursements	<u>470,436</u>	<u>0</u>	<u>470,436</u>
Operating income	<u>419,252</u>	<u>8,201</u>	<u>427,453</u>
Non-operating cash receipts:-			
Miscellaneous	473	0	473
Sale of notes	1,395	0	1,395
Fines collected	0	20,922	20,922
Other financing sources	17,980	910	18,890
Total non-operating cash receipts	<u>19,848</u>	<u>21,832</u>	<u>41,680</u>
Non-operating cash disbursements:-			
Redemption of principal	287,370	0	287,370
Interest and other fiscal charges	127,214	0	127,214
Capital outlay	2,582	750	3,332
Fines distributed	0	20,573	20,573
Other financing uses	0	10,910	10,910
Total non-operating cash disbursements	<u>417,166</u>	<u>32,233</u>	<u>449,399</u>
Net receipts over (under) disbursements before interfund transfers and advances	21,934	(2,200)	19,734
Advances- in	1,401	0	1,401
Advances- out	(3,803)	0	(3,803)
Total advances	<u>(2,402)</u>	<u>0</u>	<u>(2,402)</u>
Net receipts over (under) disbursements	19,532	(2,200)	17,332
Fund cash balances, January 1, 2009 (restated)	<u>798</u>	<u>33,159</u>	<u>33,957</u>
Fund cash balances, December 31, 2009	<u>\$ 20,330</u>	<u>\$ 30,959</u>	<u>\$ 51,289</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, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

- A. **Description of the Entity** - The Village of Mount Sterling, Madison County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, pool and park operations (leisure time activities), and police services. Subsequent to year end, the police services are being contracted with the Madison County Sheriff's Office and the pool was sold to a third party.

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** - The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains and losses at the time of sale as receipts or disbursements, respectively. The Village values certificates of deposit and repurchase agreements 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, 2010 AND 2009

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.

Mayor's Court - This fund receives Mayor's Court receipts and disbursements as required. As of May 2012, the Village no longer has a Mayor's Court.

- 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, 2010 and 2009.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 had the following carrying amount of cash and investments December 31:

	2010	2009
Deposits;		
Demand deposits	\$ 324,276	\$ 208,133
Investments;		
High yield savings	11,053	11,042
STAR Ohio	11,523	11,511
Total investments	22,576	22,553
Total deposits and investments	\$ 346,852	\$ 230,686

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, 2010 AND 2009**

NOTE 3 - BUDGETARY ACTIVITY:-

Budgetary activity for the year ending December 31, 2010 was as follows:

2010 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 794,947	\$ 697,582	\$ (97,365)
Special Revenue	115,754	91,459	(24,295)
Enterprise	1,404,274	1,312,494	(91,780)
Agency	<u>10,000</u>	<u>35,279</u>	<u>25,279</u>
Total	\$ <u>2,324,975</u>	\$ <u>2,136,814</u>	\$ (<u>188,161</u>)

2010 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 796,803	\$ 747,427	\$ 49,376
Special Revenue	175,935	112,811	63,124
Enterprise	1,248,274	1,125,740	122,534
Agency	<u>12,000</u>	<u>34,670</u>	<u>(22,670)</u>
Total	\$ <u>2,233,012</u>	\$ <u>2,020,648</u>	\$ <u>212,364</u>

Contrary to Ohio law, actual receipts were less than estimated resources during 2010 in the General Fund, Special Revenue Funds, and Enterprise Funds by \$97,365, \$24,295, and \$91,780, respectively.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 3 - BUDGETARY ACTIVITY:- (continued)

Budgetary activity for the year ending December 31, 2009 was as follows:

2009 Budgeted VS. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 819,662	\$ 800,512	\$ (19,150)
Special Revenue	132,308	100,207	(32,101)
Enterprise	1,068,580	910,937	(157,643)
Agency	<u>10,000</u>	<u>30,033</u>	<u>20,033</u>
Total	\$ <u>2,030,550</u>	\$ <u>1,841,689</u>	\$ (<u>188,861</u>)

2009 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 796,803	\$ 776,946	\$ 19,857
Special Revenue	175,935	94,763	81,172
Enterprise	1,026,855	891,405	135,450
Agency	<u>12,000</u>	<u>32,233</u>	<u>(20,233)</u>
Total	\$ <u>2,011,593</u>	\$ <u>1,795,347</u>	\$ <u>216,246</u>

Contrary to Ohio law, actual receipts were less than estimated resources during 2009 in the General Fund, Special Revenue Funds and Enterprise Funds by \$19,150, \$32,101, and \$157,643, respectively.

Contrary to Ohio law, during 2009 appropriations exceeded actual available resources in the Enterprise Funds by \$115,120.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4 - RESTATEMENT OF FUND BALANCE

The restatement is due to the reconstruction/reconciliation of the Village's accounting records from January 1, 2005 through August 1, 2010 and had the following effect on the fund balances the Village had previously reported.

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Enterprise</u>	<u>Agency</u>
Fund Balance at December 31, 2008	\$ 15,555	\$ 119,232	\$ 134,787	\$ (112)	\$ 93,825
Change in Fund Balance	<u>13,730</u>	<u>1,870</u>	<u>15,600</u>	<u>910</u>	<u>(60,666)</u>
Adjusted Fund Balance at December 31, 2008	<u>\$ 29,285</u>	<u>\$ 121,102</u>	<u>\$ 150,387</u>	<u>\$ 798</u>	<u>\$ 33,159</u>

NOTE 5 - DEBT:-

Debt outstanding at December 31, 2010, was as follows:

	<u>Principal Balance 12/31/2010</u>	<u>Interest Rate</u>
Ohio Water Development Authority	\$ 119,384	4.04%
Ohio Water Development Authority	364,941	7.11%
Ohio Water Development Authority	399,385	8.40%
Ohio Water Development Authority	52,059	8.26%
Ohio Water Development Authority	484,972	2.00%
Ohio Water Development Authority	271,446	4.20%
Citizens National Bank	8,756	4.35%
Citizens National Bank	<u>11,216</u>	4.35%
Total	<u>\$ 1,712,159</u>	

At December 31, 2008, the reported principal balance of \$1,909,927 was corrected to \$2,060,797 to reflect the proper activity for these financial statements.

The Ohio Water Development Authority (OWDA) loans relate to water and sewer plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

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 2010 and 2009, OWDA granted the Village an interest credit enhancement in the amount of \$17,980 and \$15,081, respectively.

During 2007, the Village entered into a loan agreement with the Ohio Water Development Authority to replace a water main in

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 5 - DEBT:- (continued)

the Village. The first payment was due on January 1, 2010 and the final payment is due on July 1, 2034. The total loan amount was \$508,893 with semi-annual payments of \$12,983 and a fixed interest rate of 2.0%. The amount outstanding at December 31, 2010 was \$484,972.

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 and did not make a payment in 2009. 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, 2010, the total outstanding balance was \$11,216.

Also, during 2008, the Village entered into a second loan agreement with Citizens National Bank for the purchase of a Kubota for the street department. 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 \$16,780 with annual payments of \$4,195 and a fixed interest rate of 4.35%. As of December 31, 2010, the total outstanding balance was \$8,756.

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

Year Ending December 31,	1997 OWDA Water	1989 OWDA Water	1989 OWDA Sewer	1988 OWDA Sewer	2007 OWDA Loan
2011	\$ 10,013	\$ 155,702	\$ 168,478	\$ 66,142	\$ 25,967
2012	10,019	155,702	168,478	66,119	25,967
2013	10,026	155,702	84,239	0	25,967
2014	10,032	0	0	0	25,967
2015	10,040	0	0	0	25,967
2016-2018	<u>10,143</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>480,381</u>
Total	60,273	467,106	421,195	132,261	610,216
Less Interest Expense	<u>(8,214)</u>	<u>(67,721)</u>	<u>(56,254)</u>	<u>(12,877)</u>	<u>(125,244)</u>
Total principal	\$ <u>52,059</u>	\$ <u>399,385</u>	\$ <u>364,941</u>	\$ <u>119,384</u>	\$ <u>484,972</u>

Year Ending December 31,	CNB 2008	CNB 2008	Total
2011	\$ 11,711	\$ 4,672	\$ 442,685
2012	0	4,722	431,007
2013	0	0	275,934
2014	0	0	35,999
2015	0	0	36,007
2016-2018	<u>0</u>	<u>0</u>	<u>490,524</u>
Total	11,711	9,394	1,712,156
Less Interest Expense	<u>(495)</u>	<u>(638)</u>	<u>(271,443)</u>
Total amortized principal	\$ <u>11,216</u>	\$ <u>8,756</u>	1,440,713
OWDA Loan 5441 - No Amortization Available			<u>271,446</u>
Total principal			\$ <u>1,712,159</u>

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 6 - PROPERTY TAX:-

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

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

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

NOTE 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 \$442,143 in 2010 and \$549,687 in 2009.

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 2010 and 2009, participants contributed 10% of their salaries to OP&F. The Village contributed an amount equal to 19.50% of police participants' wages. For 2010 and 2009, PERS members contributed 10.0% of their gross salaries. The Village contributed an amount equal to 14% of participants' gross salaries for 2010 and 2009. The Village has paid all contributions required through December 31, 2010.

NOTE 9 - RISK MANAGEMENT:-

Prior to 2009, the Government belonged 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 was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 - RISK MANAGEMENT:- (continued)

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 retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) 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 761 and 725 members as of December 31, 2010 and 2009 respectively. The Village participates in this coverage.

The Plan 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 65 and 60 members as of December 31, 2010 and 2009 respectively. 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.

The Pool’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	\$ 7,191,485	\$ 300,035	\$ 6,323,701	\$ 105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan’s website, www.ohioplan.org.

NOTE 10 - CONTINGENCIES:-

Litigation

The Village is currently involved in litigation with the local School District Board of Education. 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. Subsequent to year end, this litigation was settled with the District. The Village is paying \$1,000 per month for 40 months to the School District and the above agreements are no longer applicable due to the school relocating outside the Village limits.

VILLAGE OF MOUNT STERLING
MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 11 - SUBSEQUENT EVENTS:-

Management has evaluated subsequent events through May 11, 2012, the date which the financial statements were available to be issued.

As of March 2012, the Village disband their police department and contracted with the Madison County Sheriff's Office for police services.

As a result of the closure of the police department during 2012, the Village no longer has a Mayor's Court. The final Mayor's Court was held in May 2012.

During 2012, the Village sold their pool to a third party due to the extensive financial obligation of upkeep of the pool facilities and lack of finances to properly maintain that facility.



**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 have audited the accompanying financial statements of the Village of Mount Sterling, Madison County (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 11, 2012, wherein we noted the Village follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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 opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected.

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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider significant deficiencies in internal control over financial reporting. We consider findings 2010-003 and 2010-004 to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated May 11, 2012.

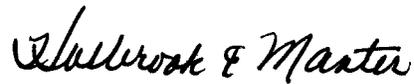
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 11, 2012.

The Village responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on it.

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



Certified Public Accountants

May 11, 2012

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2010-001
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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

The Village is aware of this issue and is making the necessary corrections to monitor and modify the Village's procedures to obtain purchase orders prior to making purchases and / or using Then and Now or Blanket Certificates.

Finding Number	2010-002
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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 2009 for the Enterprise Funds. 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 is monitoring and modifying their procedures to properly obtain amendments for the estimated resources as deemed necessary.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

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

Finding Number	2010-003
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Significant Deficiency - Internal Control and Review Procedures

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

The Village should carefully review this information and make appropriate 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

Subsequent to year end, the Village Fiscal Officer is providing the bank reconciliations and bank statements to the Finance Committee for their review and approval twice each month at their meetings. The Village will also document and approve the review of those reports and note the numerical sequence of the checks within the monthly minutes moving forward.

Finding Number	2010-004
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Significant Deficiency - 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 PRIOR YEAR FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	ORC 5705.41(D)- No subdivision is to expend monies unless it has been appropriated.	No	Repeated in the Schedule of Findings in the 2010 and 2009 audit report as Finding # 2010-001.
2008-002	ORC 5705.40- Amending or supplementing appropriations.	Yes	Finding No Longer Valid.
2008-003	Significant Deficiency- Material Weakness- Internal Control and Review Procedures	No	Repeated in the Schedule of Findings in the 2010 and 2009 audit report as Finding # 2010-003.
2008-004	Significant Deficiency- Material Weakness- Incomplete Bank Reconciliations	Yes	During the audit period, significant corrective action has been taken. Repeated comment in Management Letter.
2008-005	Significant Deficiency- Material Weakness- Changes in Banking Regulations	Yes	Finding No Longer Valid.
2008-006	Significant Deficiency- Material Weakness- Outsourcing Payroll	No	Repeated in the Schedule of Findings in the 2010 and 2009 audit report as Finding # 2010-004.
2008-007	Noncompliance Citation- Fund Deficit	Yes	Finding No Longer Valid.
2008-008	Noncompliance Citation- Appropriations Exceeding Estimated Resources	Yes	Finding No Longer Valid.
2008-009	Noncompliance Citation- Amending Certificates of Estimated Resources	No	Repeated in the Schedule of Findings in the 2010 and 2009 audit report as Finding # 2010-002.
2008-010	Noncompliance Citation- Expenditures Exceed Appropriations	Yes	Finding No Longer Valid.

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Dave Yost • 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
AUGUST 02, 2012