

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
Regular Audit
For the Years Ended December 31, 2012 and 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Mount Sterling, Madison County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2012. 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 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

November 13, 2013

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VILLAGE OF MOUNT STERLING
MADISON COUNTY

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INDEPENDENT AUDITOR'S REPORT

September 18, 2013

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the **Village of Mount Sterling**, Madison County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fair presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Mount Sterling, Madison County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1B.

Emphasis of Matter

As discussed in Note 1F to the financial statements, during 2011, the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 24,178	\$ -	\$ 24,178
Municipal Income Tax	488,171	-	488,171
Intergovernmental	122,207	76,613	198,820
Special Assessments	-	2,072	2,072
Charges for Services	8	-	8
Fines, Licenses and Permits	47,831	2,200	50,031
Earnings on Investments	401	83	484
Miscellaneous	10,282	2,867	13,149
<i>Total Cash Receipts</i>	<u>693,078</u>	<u>83,835</u>	<u>776,913</u>
Cash Disbursements			
Current:			
Security of Persons and Property	336,247	-	336,247
Public Health Services	252	-	252
Leisure Time Activities	6,772	3,612	10,384
Community Environment	10,546	-	10,546
Basic Utility Services	-	485	485
Transportation	-	106,499	106,499
General Government	255,833	-	255,833
Capital Outlay	26,056	19,117	45,173
Debt Service:			
Principal Retirement	4,426	-	4,426
Interest and Fiscal Charges	195	-	195
<i>Total Cash Disbursements</i>	<u>640,327</u>	<u>129,713</u>	<u>770,040</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>52,751</u>	<u>(45,878)</u>	<u>6,873</u>
Other Financing Receipts			
Sale of Capital Assets	730	-	730
Other Debt Proceeds	-	14,117	14,117
<i>Total Other Financing Receipts</i>	<u>730</u>	<u>14,117</u>	<u>14,847</u>
<i>Net Change in Fund Cash Balances</i>	53,481	(31,761)	21,720
<i>Fund Cash Balance, January 1</i>	<u>96,176</u>	<u>109,683</u>	<u>205,859</u>
Fund Cash Balances, December 31			
Restricted	-	77,922	77,922
Unassigned	149,657	-	149,657
<i>Fund Cash Balance, December 31</i>	<u>\$ 149,657</u>	<u>\$ 77,922</u>	<u>\$ 227,579</u>

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,227,005	\$ -	\$ 1,227,005
Miscellaneous	2,803	-	2,803
<i>Total Operating Cash Receipts</i>	<u>1,229,808</u>	<u>-</u>	<u>1,229,808</u>
Operating Cash Disbursements			
Personal Services	219,565	-	219,565
Employee Fringe Benefits	81,561	-	81,561
Contractual Services	201,035	-	201,035
Supplies and Materials	45,171	-	45,171
Other	89,400	-	89,400
<i>Total Operating Cash Disbursements</i>	<u>636,732</u>	<u>-</u>	<u>636,732</u>
<i>Operating Income</i>	<u>593,076</u>	<u>-</u>	<u>593,076</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental	39,618	-	39,618
Other Debt Proceeds	109,234	-	109,234
Miscellaneous Receipts	58,060	-	58,060
Capital Outlay	(112,637)	-	(112,637)
Other Non-Operating Receipts	-	9,290	9,290
Other Non-Operating Disbursements	-	(13,204)	(13,204)
Principal Retirement	(416,250)	-	(416,250)
Interest and Other Fiscal Charges	(50,519)	-	(50,519)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(372,494)</u>	<u>(3,914)</u>	<u>(376,408)</u>
<i>Net Change in Fund Cash Balances</i>	220,582	(3,914)	216,668
<i>Fund Cash Balance, January 1</i>	<u>79,800</u>	<u>3,914</u>	<u>83,714</u>
<i>Fund Cash Balance, December 31</i>	<u>\$ 300,382</u>	<u>\$ -</u>	<u>\$ 300,382</u>

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 19,564	\$ -	\$ 19,564
Municipal Income Tax	467,672	-	467,672
Intergovernmental	134,719	82,774	217,493
Special Assessments	1,786	-	1,786
Charges for Services	164	-	164
Fines, Licenses and Permits	58,737	2,839	61,576
Earnings on Investments	455	120	575
Miscellaneous	83,596	5,686	89,282
<i>Total Cash Receipts</i>	<u>766,693</u>	<u>91,419</u>	<u>858,112</u>
Cash Disbursements			
Current:			
Security of Persons and Property	415,837	1,985	417,822
Leisure Time Activities	6,706	-	6,706
Community Environment	8,958	-	8,958
Basic Utility Services	-	335	335
Transportation	-	84,610	84,610
General Government	208,207	-	208,207
Capital Outlay	17,959	-	17,959
Debt Service:			
Principal Retirement	15,007	-	15,007
Interest and Fiscal Charges	849	-	849
<i>Total Cash Disbursements</i>	<u>673,523</u>	<u>86,930</u>	<u>760,453</u>
<i>Net Change in Fund Cash Balances</i>	<u>93,170</u>	<u>4,489</u>	<u>97,659</u>
<i>Fund Cash Balance, January 1</i>	<u>3,006</u>	<u>105,194</u>	<u>108,200</u>
Fund Cash Balances, December 31			
Restricted	-	109,683	109,683
Unassigned	96,176	-	96,176
<i>Fund Cash Balance, December 31</i>	<u>\$ 96,176</u>	<u>\$ 109,683</u>	<u>\$ 205,859</u>

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,035,527	\$ -	\$ 1,035,527
Miscellaneous	23,103	-	23,103
<i>Total Operating Cash Receipts</i>	<u>1,058,630</u>	<u>-</u>	<u>1,058,630</u>
Operating Cash Disbursements			
Security of Persons and Property			-
Personal Services	212,048	-	212,048
Employee Fringe Benefits	99,084	-	99,084
Contractual Services	297,717	-	297,717
Supplies and Materials	36,799	-	36,799
Other	116,617	-	116,617
<i>Total Operating Cash Disbursements</i>	<u>762,265</u>	<u>-</u>	<u>762,265</u>
<i>Operating Income</i>	<u>296,365</u>	<u>-</u>	<u>296,365</u>
Non-Operating Receipts (Disbursements)			
Other Debt Proceeds	42,314	-	42,314
Miscellaneous Receipts	22,359	-	22,359
Capital Outlay	(52,658)	-	(52,658)
Other Non-Operating Receipts	-	47,373	47,373
Other Non-Operating Disbursements	-	(47,476)	(47,476)
Principal Retirement	(389,812)	-	(389,812)
Interest and Other Fiscal Charges	(73,403)	-	(73,403)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(451,200)</u>	<u>(103)</u>	<u>(451,303)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(154,835)</u>	<u>(103)</u>	<u>(154,938)</u>
<i>Fund Cash Balance, January 1 (Restated - See Note 9)</i>	<u>234,635</u>	<u>4,017</u>	<u>238,652</u>
<i>Fund Cash Balance, December 31</i>	<u>\$ 79,800</u>	<u>\$ 3,914</u>	<u>\$ 83,714</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, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Mount Sterling, Madison County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, including water and sewer utilities and park operations. The Village contracts with the Madison County sheriff's department for police protection.

The Village participates in the Ohio Plan Risk Management public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

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:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds from specific sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. Enterprise Funds

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

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

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

4. Fiduciary Funds (Agency Funds)

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Mayor's Court activity.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain Agency Funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control and appropriations may not exceed estimated resources. The Village Council 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.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. 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 in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

In 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which had no effect on fund balances. Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (Continued)

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2012	2011
Demand deposits	\$ 516,423	\$ 278,043
Total deposits	516,423	278,043
STAR Ohio	11,538	11,530
Total investments	11,538	11,530
Total deposits and investments	\$ 527,961	\$ 289,573

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or 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, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 594,861	\$ 693,808	\$ 98,947
Special Revenue	142,154	97,952	(44,202)
Enterprise	1,069,636	1,436,720	367,084
Total	\$ 1,806,651	\$ 2,228,480	\$ 421,829

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 537,375	\$ 640,327	\$ (102,952)
Special Revenue	100,401	129,713	(29,312)
Enterprise	1,246,782	1,216,138	30,644
Total	\$ 1,884,558	\$ 1,986,178	\$ (101,620)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 693,418	\$ 766,693	\$ 73,275
Special Revenue	111,910	91,419	(20,491)
Enterprise	1,016,441	1,123,303	106,862
Total	\$ 1,821,769	\$ 1,981,415	\$ 159,646

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 695,376	\$ 673,523	\$ 21,853
Special Revenue	135,753	86,930	48,823
Enterprise	1,436,790	1,278,138	158,652
Total	\$ 2,267,919	\$ 2,038,591	\$ 229,328

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the General and Special Revenue Funds in 2012.

Contrary to Ohio law, appropriations exceeded estimated resources in the Enterprise Funds in 2012 and 2011.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest</u>
OWDA - 1765	77,719	7.11%
OWDA - 1766	143,822	8.40%
OWDA - 2388	36,075	8.26%
OWDA - 4792	451,947	2.00%
OWDA - 5441	382,995	4.20%
OPWC - Improvements Phase A	111,849	0.00%
OPWC - Improvements Phase B	361,601	0.00%
Milton Bank - Tractor	14,117	3.29%
	<u>\$ 1,580,125</u>	

The Ohio Water Development Authority (OWDA) loans 1763 and 1765 relate to sewer plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loans are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. Loan 1763 was paid in full during 2012. The final payment for loan 1765 is July 1, 2013.

The Ohio Water Development Authority (OWDA) loans 1766 and 2388 relate to water plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loans are collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loans 1766 and 2388 are January 1, 2014 and January 1, 2017, respectively.

The Ohio Water Development Authority (OWDA) loan 4792 relates to water main replacement project. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 4792 is July 1, 2034.

The Ohio Water Development Authority (OWDA) loan 5441 relates to wastewater treatment plant improvement designs. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. This loan has not been fully disbursed as of December 31, 2012, and no amortization schedule is available for its repayment.

During 2008, the Village entered into a loan agreement with Citizens National Bank for the purchase of a Kubota tractor for the street department. The prior audit report did not properly disclose the outstanding amount of the loan as of December 31, 2010 as \$8,705. This loan was paid in full during 2012.

During 2008, the Village entered into a loan agreement with Citizens National Bank for the purchase of a 2008 Ford Expedition for Village use. The prior audit report did not properly disclose the outstanding amount of the loan as of December 31, 2010 as \$10,729. The loan was paid in full during 2011.

During 2009, the Village entered into a loan agreement with the Ohio Public Works Commission (OPWC) for Phase A of water system improvements. The original amount of the loan was \$135,575 to be paid in biannual payments of \$3,389. The final payment is due January 2029. The prior audit report did not disclose the amount of this outstanding loan. The outstanding amount as of December 31, 2010 was \$125,407.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT (Continued)

During 2010 the Village entered into a loan agreement with the Ohio Public Works Commission (OPWC) for Phase B of water system improvements. The original amount of the loan was \$413,258 to be paid in biannual payments of \$10,331. The final payment is due January 2030. The prior audit report did not disclose the amount of this outstanding loan. The outstanding amount as of December 31, 2010 was \$402,927.

On June 26, 2012, the Village entered into a loan agreement with The Milton Banking Company for the purchase of a 2012 Kubota RTV for Village use. The original amount of the loan was \$14,117 to be paid in 4 annual payments. The final payment is due June 26, 2016. The Kubota RTV collateralized the loan.

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

Year ending December 31:	OWDA 1765	OWDA 1766	OWDA 2388	OWDA 4792
2013	\$ 84,234	\$ 77,581	\$ 4,929	\$ 12,983
2014	-	77,851	9,858	25,966
2015	-	-	9,858	25,966
2016	-	-	9,858	25,966
2017	-	-	4,929	25,966
2018-2022	-	-	-	129,832
2023-2027	-	-	-	129,832
2028-2032	-	-	-	129,832
2033-2034	-	-	-	51,933
Total	<u>\$ 84,234</u>	<u>\$ 155,432</u>	<u>\$ 39,432</u>	<u>\$ 558,276</u>

Year ending December 31:	OPWC Phase A	OPWC Phase B	Milton Bank Tractor
2013	\$ 6,779	\$ 20,663	\$ 3,824
2014	6,779	20,663	3,824
2015	6,779	20,663	3,824
2016	6,779	20,663	3,824
2017	6,779	20,663	-
2018-2022	33,895	103,315	-
2023-2027	33,895	103,315	-
2028-2030	10,164	51,656	-
Total	<u>\$ 111,849</u>	<u>\$ 361,601</u>	<u>\$ 15,296</u>

An amortization schedule for OWDA Loan #5441 has not been presented, as all funds have not yet been disbursed as of December 31, 2012.

5. LOCAL INCOME TAXES

The Village levies a municipal income tax of 1% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

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. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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.

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of police participant wages. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

8. RISK MANAGEMENT

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

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs 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 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. RISK MANAGEMENT (Continued)

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 audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available).

	2012	2011
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	\$6,413,188	\$7,172,519

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

9. RESTATEMENT OF FUND BALANCE

The restatement is due to the Water Deposit Fund being recorded as an Agency Fund instead of an Enterprise Fund in 2010. The Water Deposit Fund activity was recorded as an Enterprise Fund in 2011 and 2012.

	Enterprise Fund	Agency Fund
Fund Balance at December 31, 2010	\$ 207,084	\$ 31,568
Change in Fund Balance	27,551	(27,551)
Adjusted Fund Balance at January 1, 2011	\$ 234,635	\$ 4,017

10. CONTINGENT LIABILITY

The Village participates in several state assisted grants that are subject to financial and compliance audits by grantor agencies or their representatives. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Village believes that disallowed claims, if any, will not have a material adverse effect on the Village's financial condition.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

September 18, 2013

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

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United State and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Mount Sterling**, Madison County, Ohio, (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated September 18, 2013, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and the Village adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of audit findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. We consider findings 2012-01 and 2012-02 described in the accompanying schedule of audit findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-03 through 2012-05 described in the accompanying schedule of audit findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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, opining 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 audit findings as findings 2012-06 through 2012-08.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 18, 2013.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-01

Material Weakness

Posting Receipts and Disbursements

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code Section 117-7-01.

Receipts and disbursements were not always posted correctly. For example:

- Mayor's Court activity not properly recorded
- Debt payments were not properly recorded as redemption of principal and interest
- Loan proceeds and the corresponding capital outlay was not recorded
- Property Tax receipts were not always posted to the proper funds
- Payroll disbursements were not always posted to the UAN system

This resulted in several adjusting and reclassification entries being made to the Village's financial statements. The accompanying financial statements reflect all reclassifications and adjustments. The Village is in agreement with the adjustments and has posted them to its accounting system.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all receipts and disbursements are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code and/or the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-02

Material Weakness

Bank Reconciliations

The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. There were significant numbers of reconciling items and other adjusting factors that were not identified. The lack of proper reconciliations among the bank statements and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Village to obtain assistance from Local Government Services.

We recommend the Fiscal Officer prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances, with support for all reconciling items or other adjusting factors. Copies of bank reconciliations should be presented to Council for review and use in managing the Village.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-03

Significant Deficiency

Monitoring of Delinquent Water and Sewer Accounts

Village Council is responsible for monitoring sewer services provided to Village residents. They should receive financial information from the Utilities Clerk at their monthly meetings, including a list of delinquent water and sewer accounts. As a result of not receiving this information, Village Council may be making uninformed decisions regarding their water and sewer operations, needed revenues may not be readily available, and appropriate actions may not be taken in regards to outstanding customer accounts.

We recommend the Village Utilities Clerk provide, at least, a summary of delinquent account information to Village Council monthly and a complete listing of all delinquent accounts at least quarterly. The Village should implement and enforce a policy for past due accounts to be shut off if not collected in a timely manner.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-04

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 nor 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.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-05

Significant Deficiency

Outsourcing Payroll

During our audit, we noted the Village out-sources its 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 also 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 throughout the year.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-06

Noncompliance

Ohio Revised Code 733.40 requires, except as otherwise provided in Ohio Revised Code Section 4511.193, all fines, forfeitures, and cost in ordinance cases and all fees collected by the mayor, or which in any manner come into his or her hands, or which are due to such mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses which have been advanced out of the treasury of the municipal corporation, and all money received by such mayor for the use of such municipal corporation, shall be paid by clerk into the Village's treasury on the first Monday of each month

Our review of the Village's Mayor's Court disclosed the following:

- Mayor's Court remittances were not made timely to the Village's General Fund.

These weaknesses could allow recording errors and irregularities to occur and remain undetected.

We recommend the Village distribute the correct fines collected by the Village's Mayor's Court to the Village's General Fund and other applicable agencies by the required dates.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-07

Noncompliance

Ohio Rev. Code Sections 2743.70 and 2949.091 require the Court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, to impose and collect additional costs to be used for the State's Reparations Fund and the State's General Fund, respectively. All such moneys collected during a month under Ohio Rev. Code Section 2743.70 shall be transmitted on the first business day of each month by the Clerk of the Court to the Treasurer of State and deposited by the Treasurer in the Reparations Fund. All such moneys collected during a month under Ohio Rev. Code Section 2949.091 shall be transmitted on or before the twentieth day of the following month by the Clerk of the Court to the Treasurer of State and deposited by the Treasurer into the General Fund.

During the audit period, the Village Mayor's Court collected, but failed to remit payments to the State in a timely manner. The Village Mayor's Court should remit moneys owed to the State in a timely manner.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-08

Noncompliance

Budgetary Controls

The budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations. Ohio Revised Code Section 5705 deals with a variety of budgetary requirements that all subdivisions must comply with in order to ensure fiscal responsibility.

In performing the audit we noted several violations of budgetary law which, although they do not in and of themselves, result in errors in financial reporting, may lead to the Village making financial decisions based on incorrect or incomplete information. We noted the following:

- Violations of 5705.39 indicating appropriations cannot exceed estimated resources;
- Violations of 5705.41(B) stating no subdivision is to expend money unless it has been appropriated (expenditures exceeded appropriations);
- Violations of 5705.41(D) relating to expenditures having prior certification of availability of funds.
- Violations of 5705.36 (A) stating that upon determination that the revenue will be greater or less than the amount included in the official certificate of estimated resources, the fiscal officer should certify an amended certificate.

Although Council approves budgets for revenue and expenses and receives monthly reports of budget and actual information, it does not ensure budgetary forms are properly completed, submitted to the County Budget Commission timely or that transfers are done in compliance with laws and regulations.

Council should review the requirements of ORC section 5705 to be familiar with these laws and to make sure the Village is complying with applicable sections. If the Council does not consider this necessary steps should be taken to make sure amounts are encumbered (purchase orders are used and assigned to each purchase prior to ordering), certifications of available funds are done by the Fiscal Officer prior to purchasing and unencumbered balances are tracked for each line item.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Prior Certification of Expenditures	No	Repeated as Finding 2012-08
2010-002	Amending Certificates of Estimated Resources	No	Repeated as Finding 2012-08
2010-003	Internal Control and Review Procedures	No	Repeated as Finding 2012-04
2010-004	Outsourcing Payroll	No	Repeated as Finding 2012-05



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
NOVEMBER 26, 2013**