

**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**







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Members of Council  
Village of Mount Sterling  
1 South London Street  
Mount Sterling, OH 43143

We have reviewed the *Independent Auditor's Report* of the Village of Mount Sterling, Madison County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2018 through December 31, 2019. 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.

Keith Faber  
Auditor of State  
Columbus, Ohio

December 1, 2020

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**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO  
Regular Audit  
For the Years Ended December 31, 2019 and 2018**

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**INDEPENDENT AUDITOR'S REPORT**

Village of Mount Sterling  
Madison County  
1 South London Street  
Mount Sterling, Ohio 42143

To the Village Council:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Mount Sterling, Madison County, (the Village) as of and for the years ended December 31, 2019 and 2018.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 2 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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determined, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***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, 2019 and 2018, and the changes in financial position or cash flows 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 cash balances, receipts and disbursements by fund type, and the related notes of the Village of Mount Sterling, Madison County, as of December 31, 2019 and 2018, 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(D) permit, described in Note 2.

***Emphasis of Matters***


As discussed in Note 10 to the 2019 financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village. We did not modify our opinions regarding this matter.

As disclosed in Note 1, on June 22, 2017 the Auditor of State declared the Village to be in a state of fiscal emergency in accordance with Section 118.03 of the Ohio Revised Code. We did not modify our opinions regarding this matter.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Village's 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.



***Charles E. Harris & Associates, Inc.***  
September 30, 2020

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**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
For the Year Ended December 31, 2019**

|  | <u>General</u>           | <u>Special<br/>Revenue</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------|----------------------------|---|
| <b>Cash Receipts</b>                                 |                          |                            |   |
| Property and Other Local Taxes                       | \$ 28,423                | \$ -                       | \$ 28,423                               |
| Municipal Income Tax                                 | 832,639                  | -                          | 832,639                                 |
| Intergovernmental                                    | 70,912                   | 112,022                    | 182,934                                 |
| Fines, Licenses and Permits                          | 29,020                   | -                          | 29,020                                  |
| Miscellaneous  | <u>2,265</u>             | <u>1,782</u>               | <u>4,047</u>                            |
| <b>Total Cash Receipts</b>                           | <b>963,259</b>           | <b>113,804</b>             | <b>1,077,063</b>                        |
| <b>Cash Disbursements</b>                            |                          |                            |   |
| <b>Current:</b>                                      |                          |                            |   |
| Security of Persons and Property                     | 282,911                  | -                          | 282,911                                 |
| Leisure Time Activities                              | 19,227                   | 1,045                      | 20,272                                  |
| Transportation                                       | -                        | 99,864                     | 99,864                                  |
| General Government                                   | 362,522                  | -                          | 362,522                                 |
| Capital Outlay                                       | <u>-</u>                 | <u>11,332</u>              | <u>11,332</u>                           |
| <b>Total Cash Disbursements</b>                      | <b><u>664,660</u></b>    | <b><u>112,241</u></b>      | <b><u>776,901</u></b>                   |
| <b>Excess of Receipts Over (Under) Disbursements</b> | <b>298,599</b>           | <b>1,563</b>               | <b>300,162</b>                          |
| <b>Special Item</b>                                  | <u>6,353</u>             | <u>-</u>                   | <u>6,353</u>                            |
| <b>Net Change in Fund Cash Balances</b>              | <b>304,952</b>           | <b>1,563</b>               | <b>306,515</b>                          |
| <b>Fund Cash Balances, January 1, 2019</b>           | <u>583,620</u>           | <u>(103,035)</u>           | <u>480,585</u>                          |
| <b>Fund Cash Balances, December 31, 2019</b>         |                          |                            |   |
| Assigned   | 20,019                   | -                          | 20,019                                  |
| Unassigned   | <u>868,553</u>           | <u>(101,472)</u>           | <u>767,081</u>                          |
| <b>Fund Cash Balances, December 31, 2019</b>         | <b><u>\$ 888,572</u></b> | <b><u>\$ (101,472)</u></b> | <b><u>\$ 787,100</u></b>                |

See Accompanying Notes to the Financial Statements.

**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND BALANCES (REGULATORY CASH BASIS)  
PROPRIETARY FUND TYPE  
For the Year Ended December 31, 2019**

|  | <b>Proprietary<br/>Fund Type</b> |
|--|----------------------------------|
|  | <b>Enterprise</b>                |
| <b>Operating Receipts:</b>                         |                                  |
| Charges for Services                               | \$ 1,396,914                     |
| <b>Total Operating Receipts</b>                    | <b>1,396,914</b>                 |
| <b>Operating Disbursements:</b>                    |                                  |
| Personal Services                                  | 143,981                          |
| Employee Fringe Benefits                           | 32,067                           |
| Contractual Services                               | 202,415                          |
| Supplies and Materials                             | 90,937                           |
| Other  | 600                              |
| <b>Total Operating Disbursements</b>               | <b>470,000</b>                   |
| <b>Operating Income</b>                            | <b>926,914</b>                   |
| <b>Non-Operating Receipts/(Disbursements):</b>     |                                  |
| Miscellaneous Receipts                             | 30,764                           |
| <b>Debt Service:</b>                               |                                  |
| Principal Retirement                               | (602,777)                        |
| Interest and Fiscal Charges                        | (229,801)                        |
| <b>Total Nonoperating Receipts/(Disbursements)</b> | <b>(801,814)</b>                 |
| <b>Net Change in Fund Cash Balances</b>            | <b>125,100</b>                   |
| <b>Fund Cash Balance, January 1, 2019</b>          | <b>463,351</b>                   |
| <b>Fund Cash Balance, December 31, 2019</b>        | <b>\$ 588,451</b>                |

See Accompanying Notes to the Financial Statements.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**/Note 1 - Reporting Entity**

The Village of Mount Sterling, Madison County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly elected six-member Council directs the Village. The Village provides water and sewer utilities, and park/recreational operations. The Village of Mount Sterling contracts with the Madison County Sheriff's department to provide security of persons and property. The Village appropriates general fund money to support these duties.

The Village of Mount Sterling was placed under fiscal emergency by the Auditor of State's office on June 22, 2017 for conditions as of December 31, 2016 and April 30, 2017 (the date of determination). The Auditor of State performed a fiscal analysis of the Village per Section 118.03 of the Ohio Revised Code. The establishment of a financial planning and supervision commission has been put in place.

***Public Risk Pool***

The Village participates in a public entity risk pool. Note 6 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.

**Note 2 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue 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 Fund:

***Street Construction Maintenance and Repair*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 2 - Summary of Significant Accounting Policies – Continued**

***Fund Accounting - Continued***

***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 Fund*** The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

***Sewer Fund*** The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Council 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***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 Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

***Budgetary Process – Continued***

***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 approve estimated resources.

***Encumbrances*** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2019 budgetary activity appears in Note 3.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 2 - Summary of Significant Accounting Policies - Continued**

***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.

***Capital Assets***

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

***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.

***Special Item***

Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

***Fund Balance***

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:

***Non-spendable*** The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

***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.

***Committed*** Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or 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.

***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. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated receipts and appropriations in the subsequent year's appropriated budget in the General Fund.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

**Note 2 - Summary of Significant Accounting Policies - Continued**

***Fund Balance – Continued***

*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.

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.

**Note 3 - Budgetary Activity**

Budgetary activity for the year ending December 31, 2019 follows:

| 2019 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           | \$863,300            | \$969,612          | \$106,312 |
| Special Revenue                   | 152,390              | 113,804            | (38,586)  |
| Enterprise                        | 2,220,396            | 1,427,678          | (792,718) |

| 2019 Budgeted vs. Actual Budgetary Basis Disbursements |                            |                            |          |
|--|----------------------------|----------------------------|----------|
| Fund Type  | Appropriation<br>Authority | Budgetary<br>Disbursements | Variance |
| General  | \$774,643                  | \$684,679                  | \$89,964 |
| Special Revenue  | 169,425                    | 115,635                    | 53,790   |
| Enterprise   | 1,795,128                  | 1,500,954                  | 294,174  |

**Note 4 – Deposits**

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 at December 31 was as follows:

|                 |             |
|-----------------|-------------|
|                 | <b>2019</b> |
| Demand deposits | \$1,375,551 |



**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 4 – Deposits - Continued**

Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**Note 5 – Taxes**

***Property Taxes***

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. 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.

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

***Income Taxes***

The Village levies a municipal income tax of 1 percent 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 the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. The Village utilizes the Regional Income Tax Agency (RITA) for the collection of income taxes on its behalf.

**Note 6 - Risk Management**

***Workers' Compensation***

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

***Risk Pool Membership***

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 6 - 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 14 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. Effective November 1, 2017, the OPRM retained 47 percent of the premium and losses on the first \$250,000 casualty treaty and 30 percent of the first \$1,000,000 property treaty. The OPRM also participated in a property primary excess of loss treaty. This treaty reimbursed the OPRM 30 percent for losses between \$200,000 and \$1,000,000. The reimbursement is based on the amount of loss between \$200,000 and \$1,000,000. Effective November 1, 2018, the OPRM property retention remained unchanged, however, the Plan assumed 100 percent of the first \$250,000 casualty treaty. Effective November 1, 2019, the OPRM's property retention increased from 30 percent to 33 percent, while the casualty treaty remains unchanged and still assumes 100 percent of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 776 members as of December 31, 2019.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and equity at December 31, 2019.

|                 |                      |
|-----------------|----------------------|
| Assets          | \$ 15,920,504        |
| Liabilities     | <u>( 11,329,011)</u> |
| Members' Equity | <u>\$ 4,591,493</u>  |

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 7 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2019.

***Social Security***

One Village employee contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 7 - Defined Benefit Pension Plans - Continued**

*Social Security - Continued*

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2019.

**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2019.

**Note 9 – Debt**

Debt outstanding at December 31, 2019 was as follows:

|  | Principal    | Interest Rate |
|--|--------------|---------------|
| Ohio Public Works Commission:              |              |               |
| Phase A US 62a Improvements                | \$61,008     | 0.00%         |
| Phase B US 62a Improvements                | 206,629      | 0.00%         |
| Ohio Water Development Authority:          |              |               |
| High Street Storm Sewer Phase 2            | 230,447      | 1.15%         |
| WWTP Improvements                          | 4,425,700    | 0.00%         |
| Main/Columbus Street Water Main replacment | 325,436      | 2.00%         |
| Water Tank Replacement *                   | 63,119       | 3.03%         |
| Storage Tank Painting *                    | 304,690      | 1.09%         |
| Water Treatment Plant *                    | 9,083,209    | .96 to 2.96%  |
| Total                                      | \$14,700,238 |               |

\* These projects have not been completed as of December 31, 2019.

The Ohio Public Works Commission (OPWC) loans relate to water line improvements along US 62. OPWC approved two loans for \$135,575 and \$413,258, respectively, to the Village. The loans will be repaid over 20 years at 0 percent interest.

The Ohio Water Development Authority (OWDA) loans consist of money owed to the OWDA for the High Street storm sewer phase 2 and Wastewater Treatment Plant improvements. The loans will be repaid from the sewer fund. The Main/Columbus Street water main improvement, water tank replacement, storage tank painting, and water treatment plant loans will be repaid from the water fund.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 9 – Debt - Continued**

*Amortization*

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

| Year Ending<br>December 31: | OPWC Loan | OWDA Loan    |
|-----------------------------|-----------|--------------|
| 2020                        | \$27,442  | \$806,488    |
| 2021                        | 27,442    | 806,488      |
| 2022                        | 27,442    | 806,488      |
| 2023                        | 27,442    | 806,488      |
| 2024                        | 27,442    | 806,488      |
| 2025-2029                   | 130,427   | 4,032,440    |
| 2030-2034                   | -         | 4,019,456    |
| 2035-2039                   | -         | 2,376,504    |
| 2040-2044                   | -         | 2,376,504    |
| 2045-2047                   | -         | 1,390,580    |
| Total                       | \$267,637 | \$18,227,924 |

**Note 10 – Subsequent Event**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village. The impact on the Village’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
For the Year Ended December 31, 2018**

|   | General           | Special<br>Revenue  | Totals<br>(Memorandum<br>Only) |
|---|-------------------|---------------------|--------------------------------|
| <b>Cash Receipts</b>                                  |                   |                     |                                |
| Property and Other Local Taxes                        | \$ 26,287         | \$ -                | \$ 26,287                      |
| Municipal Income Tax                                  | 872,075           | -                   | 872,075                        |
| Intergovernmental                                     | 96,122            | 96,979              | 193,101                        |
| Fines, Licenses and Permits                           | 33,330            | -                   | 33,330                         |
| Charges for Services                                  | -                 | 1,400               | 1,400                          |
| Miscellaneous   | 11,544            | 4,255               | 15,799                         |
| <b>Total Cash Receipts</b>                            | <b>1,039,358</b>  | <b>102,634</b>      | <b>1,141,992</b>               |
| <b>Cash Disbursements</b>                             |                   |                     |                                |
| <b>Current:</b>                                       |                   |                     |                                |
| Security of Persons and Property                      | 283,415           | -                   | 283,415                        |
| Leisure Time Activities                               | 18,542            | 639                 | 19,181                         |
| Transportation  | 16,331            | 35,507              | 51,838                         |
| General Government                                    | 344,751           | -                   | 344,751                        |
| Capital Outlay  | 84,369            | -                   | 84,369                         |
| <b>Total Cash Disbursements</b>                       | <b>747,408</b>    | <b>36,146</b>       | <b>783,554</b>                 |
| <b>Excess of Receipts Over (Under) Disbursements</b>  | <b>291,950</b>    | <b>66,488</b>       | <b>358,438</b>                 |
| <b>Transfers In</b>                                   | <b>-</b>          | <b>36,900</b>       | <b>36,900</b>                  |
| <b>Transfers Out</b>                                  | <b>(36,900)</b>   | <b>-</b>            | <b>(36,900)</b>                |
| <b>Total Other Financing Receipts (Disbursements)</b> | <b>(36,900)</b>   | <b>36,900</b>       | <b>-</b>                       |
| <b>Special Item</b>                                   | <b>40,130</b>     | <b>-</b>            | <b>40,130</b>                  |
| <b>Net Change in Fund Cash Balances</b>               | <b>295,180</b>    | <b>103,388</b>      | <b>398,568</b>                 |
| <b>Fund Cash Balances, January 1, 2018</b>            | <b>288,440</b>    | <b>(206,423)</b>    | <b>82,017</b>                  |
| <b>Fund Cash Balances, December 31 2018</b>           |                   |                     |                                |
| Assigned  | 11,218            | -                   | 11,218                         |
| Unassigned  | 572,402           | (103,035)           | 469,367                        |
| <b>Fund Cash Balances, December 31, 2018</b>          | <b>\$ 583,620</b> | <b>\$ (103,035)</b> | <b>\$ 480,585</b>              |

**See Accompanying Notes to the Financial Statements.**

**VILLAGE OF MOUNT STERLING  
MADISON COUNTY, OHIO  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
FUND BALANCES (REGULATORY CASH BASIS)  
PROPRIETAR FUND TYPE  
For the Year Ended December 31, 2018**

|  | <b>Proprietary<br/>Fund Type</b> |
|--|----------------------------------|
|  | <b>Enterprise</b>                |
| <b>Operating Receipts:</b>                         |                                  |
| Charges for Services                               | \$ 958,960                       |
| Miscellaneous                                      | 12,502                           |
|  | 971,462                          |
| <b>Total Operating Receipts</b>                    | <b>971,462</b>                   |
| <b>Operating Disbursements:</b>                    |                                  |
| Personal Services                                  | 146,999                          |
| Employee Fringe Benefits                           | 40,711                           |
| Contractual Services                               | 227,164                          |
| Supplies and Materials                             | 72,047                           |
| Other  | 3,242                            |
|  | 490,163                          |
| <b>Total Operating Disbursements</b>               | <b>490,163</b>                   |
| <b>Operating Income</b>                            | <b>481,299</b>                   |
| <b>Non-Operating Receipts/(Disbursements):</b>     |                                  |
| Loans Issued                                       | 44,604                           |
| Miscellaneous Receipts                             | 17,918                           |
| Capital Outlay                                     | (70,196)                         |
| <b>Debt Service:</b>                               |                                  |
| Principal Retirement                               | (621,323)                        |
| Interest and Fiscal Charges                        | (235,261)                        |
|  | (864,258)                        |
| <b>Total Nonoperating Receipts/(Disbursements)</b> | <b>(864,258)</b>                 |
| <b>Net Change in Fund Balance</b>                  | <b>(382,959)</b>                 |
| <b>Fund Cash Balance, January 1, 2018</b>          | <b>846,310</b>                   |
| <b>Fund Cash Balance, December 31, 2018</b>        | <b>\$ 463,351</b>                |

See Accompanying Notes to the Financial Statements.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 1 - Reporting Entity**

The Village of Mount Sterling, Madison County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly elected six-member Council directs the Village. The Village provides water and sewer utilities, and park/recreational operations. The Village of Mount Sterling contracts with the Madison County Sheriff's department to provide security of persons and property. The Village appropriates general fund money to support these duties.

The Village of Mount Sterling was placed under fiscal emergency by the Auditor of State's office on June 22, 2017 for conditions as of December 31, 2016 and April 30, 2017 (the date of determination). The Auditor of State performed a fiscal analysis of the Village per Section 118.03 of the Ohio Revised Code. The establishment of a financial planning and supervision commission has been put in place.

***Public Risk Pool***

The Village participates in a public entity risk pool. Note 6 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.

**Note 2 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue 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 Fund:

***Street Construction Maintenance and Repair*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 2 - Summary of Significant Accounting Policies – Continued**

***Fund Accounting – Continued***

***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 Fund*** The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

***Sewer Fund*** The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Council 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***Budgetary Process***

The Ohio Revised Code requires that each fund 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 Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

***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 approve estimated resources.

***Encumbrances*** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2018 budgetary activity appears in Note 3.



**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 2 - Summary of Significant Accounting Policies – Continued**

***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.

***Capital Assets***

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

***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.

***Special Item***

Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

***Fund Balance***

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:

***Non-spendable*** The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

***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.

***Committed*** Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or 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.

***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. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated receipts and appropriations in the subsequent year's appropriated budget in the General Fund.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

**Note 2 - Summary of Significant Accounting Policies - Continued**

***Fund Balance – Continued***

*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.

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.

**Note 3 - Budgetary Activity**

Budgetary activity for the year ending December 31, 2018 follows:

| 2018 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           | \$881,981            | \$1,079,488        | \$197,507 |
| Special Revenue                   | 123,200              | 139,534            | 16,334    |
| Enterprise                        | 1,242,650            | 1,033,984          | (208,666) |

| 2018 Budgeted vs. Actual Budgetary Basis Disbursements |                            |                            |           |
|--|----------------------------|----------------------------|-----------|
| Fund Type  | Appropriation<br>Authority | Budgetary<br>Disbursements | Variance  |
| General  | \$983,237                  | \$795,526                  | \$187,711 |
| Special Revenue  | 121,280                    | 37,730                     | 83,550    |
| Enterprise   | 1,924,682                  | 1,451,466                  | 473,216   |

**Note 4 – Deposits**

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 at December 31 was as follows:

|                 |             |
|-----------------|-------------|
|                 | <b>2018</b> |
| Demand deposits | \$943,936   |

Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 5 – Taxes**

***Property Taxes***

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. 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.

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

***Income Taxes***

The Village levies a municipal income tax of 1 percent 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 the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. The Village utilizes the Regional Income Tax Agency (RITA) for the collection of income taxes on its behalf.

**Note 6 - Risk Management**

***Workers' Compensation***

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

***Risk Pool Membership***

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

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

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 6 - Risk Management – Continued**

***Risk Pool Membership - Continued***

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. Effective November 1, 2016, the OPRM retained 50 percent of the premium and losses on the first \$250,000 casualty treaty and 30 percent of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47 percent of the premium and losses on the first \$250,000 casualty treaty and 30 percent of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM property retention remained unchanged, however, the Plan assumed 100 percent of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2018.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and equity at December 31, 2018.

|                 |                     |
|-----------------|---------------------|
| Assets          | \$15,065,412        |
| Liabilities     | <u>(10,734,623)</u> |
| Members’ Equity | <u>\$ 4,330,789</u> |

You can read the complete audited financial statements for OPRM at the Plan’s website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 7 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants’ gross salaries. The Village has paid all contributions required through December 31, 2018.

***Social Security***

One Village employee contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants’ gross salaries. The Village has paid all contributions required through December 31, 2018.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018.

**Note 9 – Debt**

Debt outstanding at December 31, 2018 was as follows:

|  | <u>Principal</u>    | <u>Interest Rate</u> |
|--|---------------------|----------------------|
| Ohio Public Works Commission:              |                     |                      |
| Phase A US 62a Improvements                | \$67,787            | 0.00%                |
| Phase B US 62a Improvements                | 227,292             | 0.00%                |
| Ohio Water Development Authority:          |                     |                      |
| High Street Storm Sewer Phase 2            | 238,011             | 1.15%                |
| WWTP Improvements                          | 4,730,919           | 0.00%                |
| Main/Columbus Street Water Main replacment | 344,605             | 2.00%                |
| Water Tank Replacement *                   | 64,084              | 3.03%                |
| Storage Tank Painting *                    | 312,872             | 1.09%                |
| Water Treatment Plant *                    | 9,317,445           | .96 to 2.96%         |
| Total                                      | <u>\$15,303,015</u> |                      |

\* These projects have not been completed as of December 31, 2018.

The Ohio Public Works Commission (OPWC) loans relate to water line improvements along US 62. OPWC approved two loans for \$135,575 and \$413,258, respectively, to the Village. The loans will be repaid over 20 years at 0 percent interest.

The Ohio Water Development Authority (OWDA) loans consist of money owed to the OWDA for the High Street storm sewer phase 2 and Wastewater Treatment Plant improvements. The loans will be repaid from the sewer fund. The Main/Columbus Street water main improvement, water tank replacement, storage tank painting, and water treatment plant loans will be repaid from the water fund.

**Village of Mount Sterling, Ohio**  
*Madison County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 9 – Debt – (continued)**

***Amortization***

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

| Year Ending<br>December 31: | OPWC Loan        | OWDA Loan           |
|-----------------------------|------------------|---------------------|
| 2019                        | \$27,442         | \$346,390           |
| 2020                        | 27,442           | 806,488             |
| 2021                        | 27,442           | 806,488             |
| 2022                        | 27,442           | 806,488             |
| 2023                        | 27,442           | 806,488             |
| 2024-2028                   | 137,208          | 4,032,440           |
| 2029-2033                   | 20,661           | 4,032,440           |
| 2034-2038                   | -                | 2,694,708           |
| 2039-2043                   | -                | 2,376,504           |
| 2044-2047                   | -                | 1,865,880           |
| Total                       | <u>\$295,079</u> | <u>\$18,574,314</u> |

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Village of Mount Sterling  
Madison County  
1 South London Street  
Mount Sterling, Ohio 42143

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Mount Sterling, Madison County, (the Village) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2020, wherein we noted that the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village and that the Village was declared to be in a state of fiscal emergency by the Auditor of State on June 22, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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 Village's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Audit Findings as item 2019-001 that we consider to be a material weakness.

***Compliance and Other Matters***

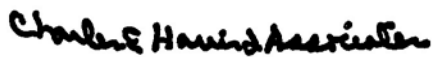
As part of obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Entity's Response to Finding***

The Village's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Village's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***  
September 30, 2020



VILLAGE OF MOUNT STERLING  
MADISON COUNTY  
Schedule of Audit Findings  
December 31, 2019 and 2018

|  |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

**Finding Number 2019-001 – Material Weakness**

Audit Adjustments, Reclassifications and Notes to the Financial Statements

During 2019 and 2018, errors were noted in the Village's financial statements and footnotes that required audit adjustments and reclassifications the most significant of which are as follows:

- Income Tax receipts of \$11,775 were reclassified from miscellaneous receipts in 2018.
- The beginning fund balances were misstated due to errors in posting audit adjustments from the 2017 audit.
- The Deposits note contained incorrect balances.
- The Budgetary Activity note did not include proper amounts for Budgeted Receipts, Actual Receipts, Appropriation Authority, and Budgetary Expenditures.
- The Debt note principal balances outstanding were not correct for 2019 and 2018.

The accompanying financial statements and footnotes and the Village's records have been adjusted to properly reflect these transactions.

Management's Response:

See Corrective Action Plan on page 28.

VILLAGE OF MOUNT STERLING  
MADISON COUNTY  
For the Years Ended December 31, 2019 and 2018

**SCHEDULE OF PRIOR AUDIT FINDINGS-PREPARED BY MANAGEMENT**

| FINDING<br>NUMBER | FINDING<br>SUMMARY   | STATUS        | ADDITIONAL<br>INFORMATION |
|-------------------|--|---------------|---------------------------|
| 2017-001          | Material Weakness – Posting Receipts, Disbursements, and Fund Balances         | Not Corrected |                           |
| 2017-002          | Material Weakness – Bank Reconciliations                                       | Corrected     |                           |
| 2017-003          | Material Weakness – Internal Control and Review Procedures                     | Corrected     |                           |
| 2017-004          | Material Weakness – Outsourcing Payroll  | Corrected     |                           |
| 2017-005          | Material Weakness Unsupported/ Unauthorized and Improper Disbursements         | Corrected     |                           |
| 2017-006          | Material Weakness – Dual Signatures of Checks                                  | Corrected     |                           |
| 2017-007          | Material Weakness – Village Credit Cards                                       | Corrected     |                           |
| 2017-008          | Material Weakness – Lack of Council Oversight                                  | Corrected     |                           |
| 2017-009          | Material Weakness – Segregation of Duties/Internal Controls                    | Corrected     |                           |
| 2017-010          | Material Weakness – Health Insurance Reimbursement                             | Corrected     |                           |
| 2017-011          | Significant Deficiency – Monitoring of Adjustments to Water and Sewer Accounts | Corrected     |                           |
| 2017-012          | Significant Deficiency – Monitoring of Delinquent Water and Sewer Accounts     | Corrected     |                           |
| 2017-013          | Noncompliance and Material Weakness – Budgetary Controls                       | Corrected     |                           |
| 2017-014          | Noncompliance and Material Weakness – Village Clerk/Treasurer                  | Corrected     |                           |
| 2017-015          | Noncompliance and Material Weakness – Taxable Fringe Benefits                  | Corrected     |                           |
| 2017-016          | Noncompliance and Material Weakness – Proper Fund Approval                     | Corrected     |                           |
| 2017-017          | Noncompliance – Fraud Reporting System   | Corrected     |                           |
| 2017-018          | Noncompliance – Sale of Assets   | Corrected     |                           |

**VILLAGE OF MOUNT STERLING  
MADISON COUNTY  
For the Years Ended December 31, 2019 and 2018**

**CORRECTIVE ACTION PLAN – PREPARED BY MANAGEMENT**

| <b>Finding Number</b> | <b>Planned Corrective Action</b>   | <b>Anticipated Completion Date</b> | <b>Responsible Contact Person</b>   |
|-----------------------|--|------------------------------------|-------------------------------------|
| 2019-001              | The Fiscal Officer will also review GASB Statement Number 54, Audit Bulletin 2011-004, the Village Officer’s Handbook and other Auditor of State guidance as references when recording transactions and preparing the notes to the financial statements. | December 31, 2020                  | Courtney Bricker,<br>Fiscal Officer |

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# OHIO AUDITOR OF STATE KEITH FABER



**VILLAGE OF MOUNT STERLING**

**MADISON COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 12/15/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)