



**VILLAGE OF MOUNT STERLING
MADISON COUNTY
Regular Audit
For the Years Ended December 31, 2017 and 2016**

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Vienna, WV 26105
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OHIO AUDITOR OF STATE
KEITH FABER



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Village Council
Village of Mount Sterling
1 South London Street
Mount 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, 2016 through December 31, 2017. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

June 19, 2019

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VILLAGE OF MOUNT STERLING
MADISON COUNTY

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INDEPENDENT AUDITOR'S REPORT

April 24, 2019

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

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, Ohio (the Village), as of and for the years ended December 31, 2017 and 2016.

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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2 03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly 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 such 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 opinions.

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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 determinable, 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, 2017 and 2016, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Mount Sterling, Madison County as of December 31, 2017 and 2016, 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 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 opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019, 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.



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 (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Local Taxes	\$ 27,106	\$ 8,315	\$ 35,421
Municipal Income Tax	729,488	-	729,488
Intergovernmental	68,766	84,833	153,599
Charges for Services	-	1,600	1,600
Fines, Licenses and Permits	18,691	-	18,691
Miscellaneous	3,437	2,835	6,272
<i>Total Cash Receipts</i>	<u>847,488</u>	<u>97,583</u>	<u>945,071</u>
Cash Disbursements			
Current:			
Security of Persons and Property	308,948	-	308,948
Leisure Time Activities	67,515	16,212	83,727
Basic Utility Services	-	7,818	7,818
Transportation	4,156	59,712	63,868
General Government	325,735	8,278	334,013
<i>Total Cash Disbursements</i>	<u>706,354</u>	<u>92,020</u>	<u>798,374</u>
<i>Excess of Receipts Over Disbursements</i>	<u>141,134</u>	<u>5,563</u>	<u>146,697</u>
Other Financing (Disbursements)			
Other Financing Uses	(376)	-	(376)
<i>Total Other Financing (Disbursements)</i>	<u>(376)</u>	<u>-</u>	<u>(376)</u>
Special Item (See Note 11)	<u>203,057</u>	<u>-</u>	<u>203,057</u>
<i>Net Change in Fund Cash Balances</i>	343,815	5,563	349,378
<i>Fund Cash Balances, January 1</i>	<u>(55,375)</u>	<u>(211,986)</u>	<u>(267,361)</u>
Fund Cash Balances, December 31			
Restricted	-	67,393	67,393
Unassigned (Deficit)	288,440	(273,816)	14,624
<i>Fund Cash Balances, December 31</i>	<u>\$ 288,440</u>	<u>\$ (206,423)</u>	<u>\$ 82,017</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 (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts			
Charges for Services	\$ 875,680	\$ -	\$ 875,680
Miscellaneous	3,507	-	3,507
<i>Total Operating Cash Receipts</i>	<u>879,187</u>	<u>-</u>	<u>879,187</u>
Operating Cash Disbursements			
Personal Services	262,670	-	262,670
Employee Fringe Benefits	97,958	-	97,958
Contractual Services	281,313	-	281,313
Supplies and Materials	85,256	-	85,256
Other	6,151	6,480	12,631
<i>Total Operating Cash Disbursements</i>	<u>733,348</u>	<u>6,480</u>	<u>739,828</u>
<i>Operating Income (Loss)</i>	<u>145,839</u>	<u>(6,480)</u>	<u>139,359</u>
Non-Operating Receipts (Disbursements)			
Debt Proceeds	5,930,299	-	5,930,299
Miscellaneous Receipts	50,481	-	50,481
Capital Outlay	(5,921,662)	-	(5,921,662)
Principal Retirement	(509,611)	-	(509,611)
Interest and Other Fiscal Charges	(129,626)	-	(129,626)
Other Financing Sources	3,100	-	3,100
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(577,019)</u>	<u>-</u>	<u>(577,019)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(431,180)</u>	<u>(6,480)</u>	<u>(437,660)</u>
<i>Fund Cash Balances, January 1</i>	<u>1,277,490</u>	<u>6,480</u>	<u>1,283,970</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 846,310</u>	<u>\$ -</u>	<u>\$ 846,310</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
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 1 – Reporting Entity

The Village of Mount Sterling (the Village), 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 general governmental services, including water and sewer utilities and park operations. The Village contracts with the Madison County sheriff's department for police protection.

On June 22, 2017, the Ohio Auditor of State declared the Village in fiscal emergency, as defined by Ohio Rev. Code Section 118.03. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the Mayor of the Village, the Madison County Auditor, and three individuals appointed by the Governor who are residents of Madison County and meet certain criteria. The Commission is responsible for approving a financial recovery plan that eliminates the fiscal emergency conditions, balances the budget, and avoids future deficits.

The Village participates in a public entity risk pool. Note 7 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 and fiduciary 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 Funds:

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

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

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

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

Fiduciary Funds

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 fire escrow.

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 Board 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. Appropriations lapse at year end.

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Budgetary Process (Continued)

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2017 budgetary activity appears in Note 4.

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.

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:

Nonspendable The Village classifies assets as *nonspendable* 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 (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.

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

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 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources for the Street Construction Maintenance and Repair, State Highway, Permissive Motor Vehicle License Tax and State Grant – Moving Ohio Forward Funds for the year ended December 31, 2017.

Contrary to Ohio law, expenditures exceeded appropriations in the General and Water Operating Funds for the year ended December 31, 2017.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 822,004	\$ 1,050,545	\$ 228,541
Special Revenue	83,000	97,583	14,583
Enterprise	2,238,290	6,863,067	4,624,777
Total	\$ 3,143,294	\$ 8,011,195	\$ 4,867,901

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 704,000	\$ 706,730	\$ (2,730)
Special Revenue	165,280	92,020	73,260
Enterprise	2,606,221	7,294,247	(4,688,026)
Total	\$ 3,475,501	\$ 8,092,997	\$ (4,617,496)

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Note 5 – Deposits

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2017 was as follows:

	2017
Demand deposits	\$ 928,327
Total deposits	\$ 928,327

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

Note 6 – 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.

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% 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. The Village utilizes the Regional Income Tax Agency (RITA) for the collection of income taxes on its behalf.

Note 7 – Risk Management

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.

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
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Note 7 – 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% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

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 equity at December 31, 2017.

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members’ Equity	<u>\$ 5,292,512</u>

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

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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% 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, 2017.

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which includes 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. OPERS contributes 1 percent of the employer contribution to fund these benefits.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Note 10 - Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest</u>
OWDA - 4792	\$ 363,397	2.00%
OWDA - 6339	5,036,141	0.00%
OWDA - 7037	319,790	1.09%
OWDA - 7143	245,489	3.06%
OWDA - 7243	9,504,166	3.92%
OWDA - 7304	66,830	3.03%
OPWC - Improvements Phase A	74,566	0.00%
OPWC - Improvements Phase B	247,955	0.00%
Land Acquisition Bonds Series 2013	21,400	3.50%
	<u>\$ 15,879,734</u>	

The Ohio Water Development Authority (OWDA) loan 4792 relates to water main replacement project. This loan will be repaid in semi-annual installments of \$12,983 including principal and interest. 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 6339 relates to the wastewater treatment plant. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 6339 is January 1, 2034.

The Ohio Water Development Authority (OWDA) loan 7037 relates to the storage tank painting. 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, 2017, and no amortization schedule is available for its repayment.

The Ohio Water Development Authority (OWDA) loan 7143 relates to the high street storm sewer phase 2 project. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 7143 is January 1, 2046.

The Ohio Water Development Authority (OWDA) loan 7243 relates to water treatment plant and wellfield. 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, 2017, and no amortization schedule is available for its repayment.

The Ohio Water Development Authority (OWDA) loan 7034 relates to the water tank replacement design. 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, 2017, and no amortization schedule is available for its repayment.

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Note 10 – 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.

During 2013, the Village entered into a bond for land acquisition and site improvements. The original amount of the bond was \$100,000 to be repaid in 5 annual payments. The final payment is due September 1, 2018.

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

Year ending December 31:	OWDA 4792	OWDA 6339	OWDA 7143	OPWC Phase A	OPWC Phase B	Land Acquis. Bonds
2018	\$ 25,966	\$ 305,220	\$ 10,280	\$ 6,779	\$ 20,663	\$ 22,149
2019	25,966	305,220	10,280	6,779	20,663	-
2020	25,966	305,220	10,280	6,779	20,663	-
2021	25,966	305,220	10,280	6,779	20,663	-
2022	25,966	305,220	10,280	6,779	20,663	-
2023-2027	129,832	1,526,100	51,400	27,116	82,656	-
2028-2032	129,832	1,526,100	51,400	13,555	61,984	-
2033-2037	51,936	457,841	51,400	-	-	-
2038-2042	-	-	51,400	-	-	-
2043-2047	-	-	35,979	-	-	-
Total	<u>\$ 441,430</u>	<u>\$ 5,036,141</u>	<u>\$ 292,979</u>	<u>\$ 74,566</u>	<u>\$ 247,955</u>	<u>\$ 22,149</u>

An amortization schedule for OWDA Loans 7037, 7243, and 7304 has not been presented, as all funds have not yet been disbursed as of December 31, 2017.

Note 11 – Special Item

In July and August 2017, the Village received checks totaling \$203,057, which represented restitution as part of a conviction for theft in office by a former Village Administrator, Joseph Johnson. The restitution represented money that was stolen along with corresponding legal and accounting fees related to the theft. The entire payment related to the General Fund and was recorded to that fund.

Note 12 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 13 – Fiscal Emergency

On June 22, 2017, the Auditor of State declared the Village in fiscal emergency at December 31, 2016 and April 30, 2017, due to the existence of negative fund balances under Sections 118.03(A)(5) and 118.03(B) of the Ohio Revised Code. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of December 31, 2017, the Village still had the following deficit cash fund balances:

Fund	Cash Balance at December 31, 2017
Street Construction Maintenance and Repair	\$ (139,832)
State Highway	(97,084)
State Grant – Moving Ohio Forward	(36,900)
Total	<u>\$ (273,816)</u>

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Local Taxes	\$ 24,909	\$ 5,710	\$ 30,619
Municipal Income Tax	711,354	-	711,354
Intergovernmental	63,700	296,303	360,003
Special Assessments	14,098	-	14,098
Charges for Services	-	1,200	1,200
Fines, Licenses and Permits	26,367	-	26,367
Earnings on Investments	2,140	1	2,141
Miscellaneous	14,663	814	15,477
<i>Total Cash Receipts</i>	<u>857,231</u>	<u>304,028</u>	<u>1,161,259</u>
Cash Disbursements			
Current:			
Security of Persons and Property	443,779	-	443,779
Leisure Time Activities	67,811	2,809	70,620
Basic Utility Services	-	18,059	18,059
Transportation	-	260,160	260,160
General Government	335,238	3,438	338,676
Debt Service:			
Principal Retirement	5,818	4,000	9,818
Interest and Fiscal Charges	495	-	495
<i>Total Cash Disbursements</i>	<u>853,141</u>	<u>288,466</u>	<u>1,141,607</u>
<i>Excess of Receipts Over Disbursements</i>	<u>4,090</u>	<u>15,562</u>	<u>19,652</u>
Other Financing Receipts			
Sale of Capital Assets	-	510	510
<i>Total Other Financing Receipts</i>	<u>-</u>	<u>510</u>	<u>510</u>
<i>Net Change in Fund Cash Balances</i>	4,090	16,072	20,162
<i>Fund Cash Balances, January 1 (Restated - See Note 11)</i>	<u>(59,465)</u>	<u>(228,058)</u>	<u>(287,523)</u>
Fund Cash Balances, December 31			
Restricted	-	65,190	65,190
Unassigned (Deficit)	(55,375)	(277,176)	(332,551)
<i>Fund Cash Balances, December 31</i>	<u>\$ (55,375)</u>	<u>\$ (211,986)</u>	<u>\$ (267,361)</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 (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$ 1,256,158	\$ -	\$ 1,256,158
Fines, Licenses and Permits	1	-	1
Miscellaneous	250	-	250
<i>Total Operating Cash Receipts</i>	<u>1,256,409</u>	<u>-</u>	<u>1,256,409</u>
Operating Cash Disbursements			
Personal Services	203,052	-	203,052
Employee Fringe Benefits	121,842	-	121,842
Contractual Services	331,664	-	331,664
Supplies and Materials	159,760	-	159,760
Other	7,423	-	7,423
<i>Total Operating Cash Disbursements</i>	<u>823,741</u>	<u>-</u>	<u>823,741</u>
<i>Operating Income</i>	<u>432,668</u>	<u>-</u>	<u>432,668</u>
Non-Operating Receipts (Disbursements)			
Debt Proceeds	4,022,707	-	4,022,707
Miscellaneous Receipts	56,525	9,147	65,672
Capital Outlay	(2,756,796)	-	(2,756,796)
Principal Retirement	(1,755,500)	-	(1,755,500)
Interest and Other Fiscal Charges	(15,803)	-	(15,803)
Other Financing Sources	340	-	340
Other Financing Uses	-	(2,667)	(2,667)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(448,527)</u>	<u>6,480</u>	<u>(442,047)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(15,859)</u>	<u>6,480</u>	<u>(9,379)</u>
<i>Fund Cash Balances, January 1 (Restated - See Note 11)</i>	<u>1,293,349</u>	<u>-</u>	<u>1,293,349</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 1,277,490</u>	<u>\$ 6,480</u>	<u>\$ 1,283,970</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
FOR THE YEAR ENDED DECEMBER 31, 2016**

Note 1 – Reporting Entity

The Village of Mount Sterling (the Village), 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 general governmental services, including water and sewer utilities and park operations. The Village contracts with the Madison County sheriff's department for police protection.

On June 22, 2017, the Ohio Auditor of State declared the Village in fiscal emergency, as defined by Ohio Rev. Code Section 118.03. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the Mayor of the Village, the Madison County Auditor, and three individuals appointed by the Governor who are residents of Madison County and meet certain criteria. The Commission is responsible for approving a financial recovery plan that eliminates the fiscal emergency conditions, balances the budget, and avoids future deficits.

The Village participates in a public entity risk pool. Note 7 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 and fiduciary 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 Funds:

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

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

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

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

Fiduciary Funds

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 fire escrow.

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 Board 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.

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Budgetary Process (Continued)

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

A summary of 2016 budgetary activity appears in Note 4.

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.

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:

Nonspendable The Village classifies assets as *nonspendable* 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 (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.

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

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 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources for the General and Special Revenue Funds for the year ended December 31, 2016.

Contrary to Ohio law, an increased or decreased amended certificate was not certified when revenues were higher or lower than originally budgeted for the Special Revenue Funds for the year ended December 31, 2016.

Contrary to Ohio law, expenditures exceeded appropriations in the General and Enterprise Funds for the year ended December 31, 2016.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 621,491	\$ 857,231	\$ 235,740
Special Revenue	421,889	304,538	(117,351)
Enterprise	2,553,058	5,335,981	2,782,923
Total	\$ 3,596,438	\$ 6,497,750	\$ 2,901,312

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 835,000	\$ 853,141	\$ (18,141)
Special Revenue	437,143	288,466	148,677
Enterprise	3,400,585	5,351,840	(1,951,255)
Total	\$ 4,672,728	\$ 6,493,447	\$ (1,820,719)

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 5 – Deposits

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2016 was as follows:

	2016
Demand deposits	<u>\$ 1,016,609</u>
Total deposits	<u><u>\$ 1,016,609</u></u>

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

Note 6 – 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.

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% 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. The Village utilizes the Regional Income Tax Agency (RITA) for the collection of income taxes on its behalf.

Note 7 – Risk Management

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.

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
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 7 – 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. Until November 1, 2016, the OPRM retained 47% 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, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

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 equity at December 31, 2016.

Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members’ Equity	<u>\$ 5,234,206</u>

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

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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% 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, 2016.

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which includes 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 10 - Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest</u>
OWDA - 4792	\$ 381,819	2.00%
OWDA - 6339	5,341,361	0.00%
OWDA - 7037	329,752	1.09%
OWDA - 7143	252,882	3.06%
OWDA - 7243	3,691,732	3.92%
OWDA - 7304	69,437	3.03%
OPWC - Improvements Phase A	81,345	0.00%
OPWC - Improvements Phase B	268,618	0.00%
Land Acquisition Bonds Series 2013	42,100	3.50%
	<u>\$ 10,459,046</u>	

During 2016, the Village paid off Ohio Water Development Authority (OWDA) loan 2388 that was related to the wastewater treatment plant sludge project. Also, during 2016, the Village rolled over OWDA loans 6450 and 6934 into new OWDA loan 7243.

The Ohio Water Development Authority (OWDA) loan 4792 relates to water main replacement project. This loan will be repaid in semi-annual installments of \$12,983 including principal and interest. 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 6339 relates to the wastewater treatment plant. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 6339 is January 1, 2034.

The Ohio Water Development Authority (OWDA) loan 7037 relates to the storage tank painting. 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, 2017, and no amortization schedule is available for its repayment.

The Ohio Water Development Authority (OWDA) loan 7143 relates to the high street storm sewer phase 2 project. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 7143 is January 1, 2046.

The Ohio Water Development Authority (OWDA) loan 7243 relates to water treatment plant and wellfield. 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, 2017, and no amortization schedule is available for its repayment.

The Ohio Water Development Authority (OWDA) loan 7034 relates to the water tank replacement design. 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, 2017, and no amortization schedule is available for its repayment.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 10 – Debt (Continued)

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.

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.

During 2013, the Village entered into a bond for land acquisition and site improvements. The original amount of the bond was \$100,000 to be repaid in 5 annual payments. The final payment is due September 1, 2018.

During 2015, the Village entered into a loan agreement with Milton Bank for the purchase of a new Dodge Ram vehicle. The original amount of the loan was \$41,805 at 1.99%. The loan was to be paid off in annual installments of \$10,977. The Village paid off this loan in 2016. We noted that this loan was not included in the prior audit report where the outstanding balance at December 31, 2015 was \$41,805.

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

Year ending December 31:	OWDA 4792	OWDA 6339	OWDA 7143	OPWC Phase A	OPWC Phase B	Land Acquis. Bonds
2017	\$ 25,966	\$ 152,610	\$ 5,140	\$ 6,779	\$ 20,663	\$ 22,174
2018	25,966	305,220	10,280	6,779	20,663	22,149
2019	25,966	305,220	10,280	6,779	20,663	-
2020	25,966	305,220	10,280	6,779	20,663	-
2021	25,966	305,220	10,280	6,779	20,663	-
2022-2026	129,832	1,526,100	51,400	27,116	82,656	-
2027-2031	129,832	1,526,100	51,400	20,334	82,647	-
2032-2036	77,903	915,671	51,400	-	-	-
2037-2041	-	-	51,400	-	-	-
2042-2046	-	-	46,249	-	-	-
Total	<u>\$ 467,397</u>	<u>\$ 5,341,361</u>	<u>\$ 298,109</u>	<u>\$ 81,345</u>	<u>\$ 268,618</u>	<u>\$ 44,323</u>

An amortization schedule for OWDA Loans 7037, 7243, and 7304 has not been presented, as all funds have not yet been disbursed as of December 31, 2016.

Note 11 – Restatement of Fund Balances

The Village's fund cash balances at January 1, 2016 have been restated to account for reconciliation adjustments that were proposed and made by Local Government Services. These adjustments were made during fiscal year 2016. These adjustments resulted in the following changes in fund balances at January 1, 2016:

	General Fund	Special Revenue Funds	Enterprise Funds
Fund Balance at December 31, 2015 as Previously Reported	\$ 30,911	\$ (233,828)	\$ 1,332,996
Reconciliation Adjustments	<u>(90,376)</u>	<u>5,770</u>	<u>(39,647)</u>
Fund Balance January 1, 2016 as Restated	<u>\$ (59,465)</u>	<u>\$ (228,058)</u>	<u>\$ 1,293,349</u>

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 12 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 13 – Fiscal Emergency

On June 22, 2017, the Auditor of State declared the Village in fiscal emergency at December 31, 2016 and April 30, 2017, due to the existence of negative fund balances under Sections 118.03(A)(5) and 118.03(B) of the Ohio Revised Code. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of December 31, 2016, the Village still had the following deficit cash fund balances:

Fund	Cash Balance at December 31, 2016
General	\$ (55,375)
Street Construction Maintenance and Repair	(144,003)
State Highway	(96,273)
State Grant – Moving Ohio Forward	(36,900)
Total	<u>\$ (332,551)</u>

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313 Second St.
Marietta, OH 45750
740.373.0056

1907 Grand Central Ave.
Vienna, WV 26105
304.422.2203

150 West Main St.
St. Clairsville, OH 43950
740.695.1569

1310 Market St., Suite 300
Wheeling, WV 26003
304.232.1358

749 Wheeling Ave., Suite 300
Cambridge, OH 43725
740.435.3417

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

April 24, 2019

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

To the Village Council:

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Mount Sterling**, Madison County, (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated April 24, 2019, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. As disclosed in Note 1, on June 22, 2017, the Village was declared by the Auditor of State to be in a state of fiscal emergency.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Village, 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 opinion 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 material weaknesses and significant deficiencies.

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Internal Control Over Financial Reporting (Continued)

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 Village's financial statements. We consider findings 2017-001 through 2017-010 and 2017-013 through 2017-016 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 2017-011 and 2017-012 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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as items 2017-013 through 2017-018.

We also noted certain matters not requiring inclusion in this report that we communicated to management in a separate letter dated April 24, 2019.

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.



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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

FINDING NUMBER 2017-001

Material Weakness

Posting Receipts, Disbursements, and Fund Balances

During 2017 and 2016, several receipts, disbursements and fund balances were not posted into accurate classifications based on the source of the receipt, disbursement and GASB 54 definition. The following mispostings were noted during the audit:

- Income Tax receipts were recorded to the incorrect fund;
- Income Tax receipts were recorded at net rather than at gross;
- Property and Other Local Taxes were recorded at net rather than at gross;
- Special Assessments were incorrectly recorded as Property and Other Local Taxes;
- Loan proceeds were incorrectly recorded as Intergovernmental;
- Loan proceeds and the corresponding capital outlay were not recorded as receipts and disbursements;
- Principal and interest payments were not classified correctly;
- Fund balance classifications in accordance with GASB 54 were not presented accurately; and
- State and local highway and gasoline excise tax receipts were recorded to the incorrect fund.

Not posting receipts and disbursements or classifying fund balances accurately resulted in the financial statements requiring adjustments and reclassifications. The Village has made all adjustments to its accounting system. The financial statements reflect all adjustments and reclassifications.

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 sources of revenues are properly identified and classified on the financial statements.

We also recommend the Village Clerk refer to the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements. The Village Clerk should refer to Auditor of State Technical Bulletin 2011-004 for assistance in properly classifying fund balances.

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

FINDING NUMBER 2017-002

Material Weakness

Bank Reconciliations

The Village Clerk 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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-002 (Continued)

Material Weakness (Continued)

Bank Reconciliations (Continued)

We recommend the Village Clerk 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. 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.

FINDING NUMBER 2017-003

Material Weakness

Internal Control and Review Procedures

Although the Council receives and reviews a select number of reports from the Village Clerk 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.

FINDING NUMBER 2017-004

Material Weakness

Outsourcing Payroll

During our audit, we noted the Village out-sources its payroll functions to a payroll specialist, which provides documentation to the Village to enter the payroll information into the UAN system. The lack of knowledge and understanding on the Village's part as to how to record each payroll in the accounting system led to numerous errors in posting payroll disbursements to the UAN 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.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-004 (Continued)

Material Weakness (Continued)

Outsourcing Payroll (Continued)

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 2017-005

Material Weakness

Unsupported/Unauthorized and Improper Disbursements

During 2016, we noted the following:

- Unsupported and unauthorized credit card disbursements.
- Unsupported and unauthorized payroll disbursements including improper leave payouts.

We recommend all disbursements be approved by Council and the proper supporting documentation maintained by the Village in accordance with the Village's record retention policy.

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

FINDING NUMBER 2017-006

Material Weakness

Dual Signatures of Checks

During our disbursement testing, we determined warrants were only signed by the Village Administrator or Village Clerk. Lack of dual signatures eliminates a significant control point. In addition, lack of dual signatures could result in the Village making inappropriate disbursements for goods or services that are not for a proper public purpose.

We recommend that no payment be made from the Village without at least one signature from the Village Clerk and one from a Village Council Member.

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)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-007

Material Weakness

Village Credit Cards

The Village paid credit card expenses that were not itemized or supported by receipts. The Village did not maintain a written credit card policy identifying guidance regarding allowable expenses, limitations, required supporting documentation, or review and approval of use. Neither the Village Clerk nor Council reviewed monthly credit card expenditures to ensure items purchased were properly supported and allowable. The lack of documentation made it difficult to determine the nature of certain charges and whether each related to the operations of the Village. Through review of available documentation obtained from vendors, we identified the Village Administrator charged personal expenses on the Village credit cards for non-business related items.

It was the Village Clerk and Council's responsibility to implement internal controls to reasonably ensure credit card transactions were supported, accurately recorded and for Village purposes. It was the Village Clerk and Council's responsibility to monitor these control procedures and verify they were operating effectively. Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to review transactions resulted in personal purchases being paid by the Village.

We recommend the Village establish written policies and procedures related to credit card transactions that specifically address items such as authorized users, allowable and prohibited expenditures, and required documentation, including the submission of original, itemized receipts. The Village should also establish procedures for review and approval of credit card transactions and specifically designate those individuals required to review and approve transactions to ensure sufficient documentation is provided to support the nature and business purpose of credit card charges prior to paying bills. To be effective, the performance of internal controls must be sufficiently documented to provide assurance the control was in place and function as management intended.

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

FINDING NUMBER 2017-008

Material Weakness

Lack of Council Oversight

Monitoring controls include management and governing board activities established to ensure compliance with policies and procedures, achievement of operational objectives, and proper and effective use of available resources.

Our audit noted the following conditions which are indicative of weak management and governing board oversight of Village activities:

- Lack of employee knowledge of Village approved policies and procedures; and
- Purchase orders, detailed invoices, receipts, and monthly reconciliations, were hardly ever reviewed and approved by the Council's Finance Committee, to evidence approval of expenses.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-008 (Continued)

Material Weakness (Continued)

Lack of Council Oversight (Continued)

Lack of proper governing board oversight increases the risk that established policies and procedures are not followed, whether misinterpreted or intentional, and operational objectives are not met. In addition, the lack of oversight increases the possibility errors or irregularities could occur and not be discovered in a timely manner and increases the opportunity for fraud to occur.

We recommend Council take a more active role in monitoring compliance with Village policies and procedures. We also recommend Council strengthen their internal controls in the Village to help provide financial stability going forward.

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

FINDING NUMBER 2017-009

Material Weakness

Segregation of Duties/Internal Controls

We noted an inadequate segregation of duties and lack of established internal controls at the Village. The Village Administrator had the ability to perform fiscal responsibilities, including preparing disbursements, processing and authorizing payroll disbursements through the Village's payroll vendor, issuing and signing Village checks and electronically paying bills from Village bank accounts. There was no documented review or approval by management of the invoices or detailed receipts supporting the checks written and signed by the Village Administrator. The Village Administrator also presented the financial information at Village Council meetings. We also noted the Village lacked formalized written policies and procedures over the payroll and non-payroll disbursement processes.

The lack of segregation of duties increases the possibility of errors or irregularities occurring and not being discovered timely. Not establishing internal controls can lead to payroll and non-payroll disbursements being made that are improper and increase the opportunity for fraud to occur.

We recommend the Village develop internal control procedures that promote an adequate segregation of duties for the payroll and non-payroll processes. Job duties should be separated between employees to strengthen controls, including separating daily fiscal responsibilities, including preparing disbursements, writing and signing checks, and processing payroll disbursements, from the Village Administrator, thereby decreasing the risk of fraud. These procedures should also promote effective management oversight by Council to ensure the non-payroll and payroll systems are providing complete, accurate, and timely information.

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)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-010

Material Weakness

Health Insurance Reimbursement

Through a review of the Village of Mount Sterling Employee Manual, we determined the Village had not adopted a health insurance reimbursement policy that addressed items such as reimbursable medical expenses, total yearly maximum employee reimbursement, and appropriate support documentation. In addition, Village management did not adequately track employee's health insurance reimbursements to ensure they didn't exceed the yearly maximum amount. The risk of inappropriate health insurance reimbursement is increased without a formal policy.

The Village reimbursed employees for health insurance expenses in 2016. Our examination of employee reimbursements noted the Village inconsistently reimbursed employees for health insurance expenses, including out of pocket deductibles, copays, prescriptions, and procedures not covered by the insurance. Documents supporting the reimbursements did not identify whether or not the employee paid the expenses prior to seeking reimbursement.

Failure to have a health insurance reimbursement policy and established internal controls to verify that all expenses were paid by the employee and within the reimbursement limit, resulted in the Village paying for charges that may have been excessive and/or not paid by the employee.

We recommend the Village implement a policy that specifically identifies allowable health insurance reimbursement expenses and the maximum yearly employee reimbursement amount. The Village should also include in the policy that all employees are required to provide evidence the health insurance expense was paid by the employee prior to requesting reimbursement. In addition, the Village should establish internal controls for reviewing and approving the health insurance reimbursements prior to payment. Village Council or the Administrator should review the reimbursements for compliance with Village policies prior to payment. The review and approval must be sufficiently documented to provide assurance the control was in place and functioning as management intended.

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

FINDING NUMBER 2017-011

Significant Deficiency

Monitoring of Adjustments to Water and Sewer Accounts

Council was not presented with and did not review any adjustment reports relating to customer billing. This could result in an increased risk of the Village not receiving monies owed for water and sewer utilities. Also, inappropriate adjustments are more likely to occur without proper approval from the Council prior to an adjustments being made.

We recommend the Council review and approve bill adjustment reports on a monthly basis.

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)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-012

Significant Deficiency

Monitoring of Delinquent Water and Sewer Accounts

Village Council is responsible for monitoring water and 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 2017-013

Noncompliance and Material Weakness

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 Village Clerk should certify an amended certificate; and

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-013 (Continued)

Noncompliance and Material Weakness (Continued)

Budgetary Controls (Continued)

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 Village Clerk 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.

FINDING NUMBER 2017-014

Noncompliance and Material Weakness

Village Clerk/Treasurer

Ohio Rev. Code Section 733.26 and 733.42 states the Village Clerk and treasurer shall be elected for a term of four years. **Ohio Rev. Code Section 733.262** provides that rather than having the elected offices of Village Clerk and treasurer, or the combined elected office of Clerk-Treasurer, as provided in **Ohio Rev. Code Section 733.261**, a village may combine the duties of the clerk and treasurer into one appointed office, to be known as the Village Clerk. To make this change, the village legislative authority shall pass, by a two-thirds vote, an ordinance or resolution proposing to make the change.

Ohio Rev. Code Section 733.27 provides the Village Clerk shall attend all meetings of the legislative authority of the village and keep a record of its proceedings and of all rules, bylaws, resolutions, and ordinances passed or adopted, which shall be subject to the inspection of all persons interested. **Ohio Rev. Code Section 733.28** also provides that the Village Clerk shall keep the books of the Village, exhibit accurate statement of all moneys received and expended, of all the property owned by the Village and income derived therefrom, and of all the taxes and assessments. **Ohio Rev. Code Section 733.43** states that the treasurer of a municipal corporation shall keep an accurate account of all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received; and all disbursements made by him, showing the amount thereof, the time thereof, the time made, to whom, and on what account paid.

During the period, Ms. Sheets was employed part time as the acting Village Clerk. However, Village Council did not pass an ordinance or resolution combining the duties of the Clerk and treasurer into one Village Clerk position. In addition, Village Council did not pass an ordinance or resolution formally hiring Ms. Sheets as the Village Clerk.

Ms. Liff was appointed Village Clerk of Council. By performing duties of the Clerk of Council, including attending all council meetings and keeping a record of all minutes, ordinances and resolutions, Ms. Liff was acting as the Village Clerk. However, Ms. Liff did not perform any additional duties of a Village Clerk.

In addition, the Village Clerk did not maintain complete books of the Village, failed to maintain accurate statements of moneys received and expended, and of all the property owned by the Village. The Village Clerk did not prepare accurate and complete monthly bank to book reconciliations.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-014 (Continued)

Noncompliance and Material Weakness (Continued)

Village Clerk/Treasurer (Continued)

Failure to comply with applicable laws regarding the appointment of Village officials increases the risk job duties are not properly completed or completed at all. In addition, the lack of compliance increases the possibility financial information will not be properly communicated to the governing board and errors or irregularities could occur and not be discovered in a timely manner. This ultimately increases the possibility for fraud to occur.

We recommend Village Council become familiar with the Village Clerk and Treasurer positions and demonstrate compliance with the stated requirements. In addition, the Village Clerk/Treasurer should record all the financial activity of the Village in the receipts ledger, appropriation ledger, and cash journal as appropriate, so that accurate statements of all monies received and expended can be prepared. The Village Clerk/Treasurer should perform monthly bank reconciliations. Financial statements and monthly bank reconciliations should be presented to Council for review. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

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

FINDING NUMBER 2017-015

Noncompliance and Material Weakness

Taxable Fringe Benefits

26 C.F.R Section 1.61-21(a)(1) provides that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Internal Revenue Service (IRS) Publication 5137, Section 15 Equipment and Allowances, the Fringe Benefit Guide, documents that clothing or uniforms were excluded from wages of an employee if they were (1) specifically required as a condition of employment; and (2) were not worn or adaptable to general usage as ordinary clothing.

During the period, the Village purchased work clothing for the Village Administrator, water and sewer employees, and Utilities Clerk. The clothing included boots, jeans, sweatshirts, overalls, jackets, socks, and hats. The clothing did not meet the exclusive definition. As such, these payments were taxable fringe benefits for the Village employees. However, these fringe benefits were not reported as gross income on the employee's W-2 forms. As a result, there is an increased likelihood of federal taxes being paid at an incorrect amount. In addition, the Village lacked formalized written policies and procedures over the clothing allowance benefit, including the classification of employees receiving the allowance and yearly allowance amount.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-015 (Continued)

Noncompliance and Material Weakness (Continued)

Taxable Fringe Benefits (Continued)

We recommend the Village review the IRS regulations regarding taxable fringe benefits. The Village should review W-2s upon creation and determine if all taxable income is included. This will help ensure that the W-2s report all income subject to taxation.

In addition, the Village should establish formal written policies and procedures over the clothing allowance benefit. The policies should include but not be limited to a description of the classification of employees receiving the clothing allowance and yearly allowance amount for each employee.

This matter will be referred to the Internal Revenue Service.

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

FINDING NUMBER 2017-016

Noncompliance and Material Weakness

Proper Fund Approval

Ohio Rev. Code § 5705.12 provides that, in addition to the funds provided for by sections 5705.09, 5705.121, 5705.13 and 5705.131 of the Rev. Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the Auditor of State, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than general property tax shall be paid directly into such funds. The Auditor of State shall consult with the tax commissioner before approving such funds. In 2013, the Village established a Capital Improvement Fund by ordinance without receiving approval from the Auditor of State.

This error is a result of inadequate policies and procedures over establishing new funds. We recommend the Village Clerk review Audit Bulletin 1999-006, prior to the establishment of new funds, for information on the Auditor of State's authorization of funds that are not specifically provided for in the Ohio Rev. Code.

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

FINDING NUMBER 2017-017

Noncompliance

Fraud Reporting System

Ohio Revised Code Section 117.103(B)(1) states that a public officer shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty's days after beginning employment. A model form is available on the auditor of state's web site <https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf> may be printed and used by new public employees to sign and verify their receipt of information as required by this section.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-017 (Continued)

Noncompliance (Continued)

Fraud Reporting System (Continued)

The auditor of state shall confirm, when conducting an audit under section 117.11 of the Revised Code that new employees have been provided information as required by this division.

The Village did not provide information about the Ohio fraud-reporting system upon employment with the public office. Employees being aware of this program may help reduce incidences of fraud.

We recommend the Village provide a new employee with the required information about the Ohio fraud-reporting system. The employee should sign a confirmation they have received a copy of the law and the Village should retain a signed copy in the employee's file.

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

FINDING NUMBER 2017-018

Noncompliance

Sale of Assets

Ohio Revised Code 721.15(A) states that personal property not needed for municipal purposes, the estimated value of which is less than one thousand dollars, may be sold by the board or officer having supervision or management of that property. If the estimated value of that property is one thousand dollars or more, it shall be sold only when authorized by an ordinance of the legislative authority of the municipal corporation and approved by the board, officer, or director having supervision or management of that property. When so authorized, the board, officer, or director shall make a written contract with the highest and best bidder after advertisement for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the municipal corporation or as provided in section 7.16 of the Revised Code, or with a board of county commissioners upon such lawful terms as are agreed upon, as provided by division (B)(1) of section 721.27 of the Revised Code.

During 2017, the Village came into possession of multiple vehicles previously owned by a former Village Administrator. The value of each individual vehicle was more than \$1,000. The Village sold the vehicles through an auction and did not properly pass an ordinance nor did the Village properly publicize the vehicles for sale in a newspaper or general circulation, in violation of Ohio law.

We recommend that the Village follow the appropriate Ohio Revised Codes in the future regarding sale of assets.

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

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**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Posting Receipts, Disbursements and Fund Balances	Not Corrected	Repeated as Finding 2017-001
2015-002	Bank Reconciliations	Not Corrected	Repeated as Finding 2017-002
2015-003	Internal Control and Review Procedures	Not Corrected	Repeated as Finding 2017-003
2015-004	Outsourcing Payroll	Not Corrected	Repeated as Finding 2017-004
2015-005	Unsupported/Unauthorized and Improper Disbursements	Not Corrected	Repeated as Finding 2017-005
2015-006	Dual Signatures on Checks	Not Corrected	Repeated as Finding 2017-006
2015-007	Pledged Collateral for Cash and Investments	Corrected	N/A
2015-008	Village Credit Cards	Not Corrected	Repeated as Finding 2017-007
2015-009	Monitoring of Adjustments to Water and Sewer Accounts	Not Corrected	Repeated as Finding 2017-011
2015-010	Monitoring of Delinquent Water and Sewer Accounts	Not Corrected	Repeated as Finding 2017-012
2015-011	Lack of Council Oversight	Not Corrected	Repeated as Finding 2017-008
2015-012	Segregation of Duties	Not Corrected	Repeated as Finding 2017-009
2015-013	Health Insurance Reimbursement	Not Corrected	Repeated as Finding 2017-010
2015-014	Budgetary Controls	Not Corrected	Repeated as Finding 2017-013
2015-015	Village Clerk/Treasurer	Not Corrected	Repeated as Finding 2017-014
2015-016	Records Retention	Not Corrected	Partially Corrected, Moved to Management Letter
2015-017	Public Records Policy	Not Corrected	Partially Corrected, Moved to Management Letter
2015-018	Taxable Fringe Benefits	Not Corrected	Repeated as Finding 2017-015
2015-019	Proper Fund Approval	Not Corrected	Repeated as Finding 2017-016
2015-020	Not Issuing 1099's	Corrected	N/A
2015-021	Fraud Reporting System	Not Corrected	Repeated as Finding 2017-017

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OHIO AUDITOR OF STATE
KEITH FABER



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
JULY 2, 2019**