



Mary Taylor, CPA
Auditor of State

VILLAGE OF STRATTON
JEFFERSON COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Stratton
Jefferson County
PO Box 145
Stratton, Ohio 43961

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Mary Taylor, CPA
Auditor of State

August 16, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Stratton
Jefferson County
PO Box 145
Stratton, Ohio 43961

To the Village Council:

We have audited the accompanying financial statements of the Village of Stratton, Jefferson County, (the Village) as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Stratton, Jefferson County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2009, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

August 16, 2009

VILLAGE OF STRATTON
JEFFERSON COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$808,033			\$331,765	\$1,139,798
Intergovernmental	469,168	\$11,109			480,277
Charges for Services	3,312	13,406			16,718
Fines, Licenses and Permits	155				155
Earnings on Investments	6,467				6,467
Miscellaneous	5,525		\$3,098		8,623
Total Cash Receipts	1,292,660	24,515	3,098	331,765	1,652,038
Cash Disbursements:					
Current:					
Security of Persons and Property	81,813				81,813
Public Health Services	39,038				39,038
Leisure Time Activities	60,799				60,799
Basic Utility Service	74,901	35,854			110,755
Transportation	83,100	18,576			101,676
General Government	720,625				720,625
Debt Service:					
Redemption of Principal	365,277		35,000		400,277
Interest and Fiscal Charges	14,683		28,314		42,997
Capital Outlay				325,938	325,938
Total Cash Disbursements	1,440,236	54,430	63,314	325,938	1,883,918
Total Receipts Over/(Under) Disbursements	(147,576)	(29,915)	(60,216)	5,827	(231,880)
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Bonds				754,000	754,000
Other Debt Proceeds	156,859				156,859
Transfers-In		47,000	63,313		110,313
Transfers-Out	(27,000)			(83,313)	(110,313)
Other Financing Sources	37,646				37,646
Other Financing Uses				(20,000)	(20,000)
Total Other Financing Receipts / (Disbursements)	167,505	47,000	63,313	650,687	928,505
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	19,929	17,085	3,097	656,514	696,625
Fund Cash Balances, January 1	(70,446)	19,396	0	59,763	8,713
Fund Cash Balances, December 31	(\$50,517)	\$36,481	\$3,097	\$716,277	\$705,338

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$175</u>
Total Non-Operating Cash Receipts	<u>175</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>175</u>
Total Non-Operating Cash Disbursements	<u>175</u>
Fund Cash Balances, January 1	<u>0</u>
Fund Cash Balances, December 31	<u><u>\$0</u></u>

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$451,514		\$322,647	\$774,161
Intergovernmental	456,333	\$10,874		467,207
Charges for Services	3,288	14,948		18,236
Fines, Licenses and Permits	1,185			1,185
Earnings on Investments	10,460			10,460
Miscellaneous	5,495			5,495
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	928,275	25,822	322,647	1,276,744
Cash Disbursements:				
Current:				
Security of Persons and Property	58,775			58,775
Public Health Services	39,605			39,605
Leisure Time Activities	105,274			105,274
Basic Utility Service	73,425	19,450		92,875
Transportation	82,132	2,096		84,228
General Government	695,281			695,281
Debt Service:				
Redemption of Principal	147,209		46,564	193,773
Interest and Fiscal Charges	15,331		8,566	23,897
Capital Outlay			109,892	109,892
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	1,217,032	21,546	165,022	1,403,600
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(288,757)	4,276	157,625	(126,856)
Other Financing Receipts / (Disbursements):				
Other Financing Sources	289,782			289,782
Other Financing Uses			(248,028)	(248,028)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	289,782		(248,028)	41,754
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,025	4,276	(90,403)	(85,102)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	(71,471)	15,120	150,166	93,815
Fund Cash Balances, December 31	<hr/> (\$70,446)	<hr/> \$19,396	<hr/> \$59,763	<hr/> \$8,713

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$1,325</u>
Total Non-Operating Cash Receipts	<u>1,325</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>1,325</u>
Total Non-Operating Cash Disbursements	<u>1,325</u>
Fund Cash Balances, January 1	<u>0</u>
Fund Cash Balances, December 31	<u><u>\$0</u></u>

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Stratton, Jefferson County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

The Village participates in Public Entities Pool of Ohio (PEP) public entity risk pool. Note 8 to the financial statements provides additional information for these entities. This organization is:

Public Entities Pool of Ohio (PEP):

The Public Entities Pool of Ohio (PEP), is a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund cover claims that exceed the members' deductibles.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

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

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

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Funds

Bond Retirement Fund – This fund receives monies for the purposes of making bond payment.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds

Permanent Improvement Fund – This fund receives levy money for capital improvements to Village properties.

Water/Sewer Project Contractor Fund – This fund receives proceeds of general obligation bonds. The proceeds are being used to pay for contractor's services for renovating the Village water and sewer plant.

5. Fiduciary Funds (Agency Fund)

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 fines and costs collected and distributed to the State and to the Village.

D. Budgetary Process

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. 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. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2008 and 2007 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

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

F. Accumulated Leave

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

2. EQUITY IN POOLED DEPOSITS

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

	2008	2007
Demand deposits	<u>\$705,338</u>	<u>\$8,713</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,498,082	\$1,487,165	(\$10,917)
Special Revenue	78,615	71,515	(7,100)
Debt Service	66,411	66,411	0
Capital Projects	1,085,531	1,085,765	234
Total	\$2,728,639	\$2,710,856	(\$17,783)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$969,083	\$1,467,236	(\$498,153)
Special Revenue	49,396	54,430	(5,034)
Debt Service	63,314	63,314	0
Capital Projects	562,387	429,251	133,136
Total	\$1,644,180	\$2,014,231	(\$370,051)

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$1,218,057	\$1,218,057
Special Revenue	0	25,822	25,822
Capital Projects	0	322,647	322,647
Total	\$0	\$1,566,526	\$1,566,526

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,016,327	\$1,217,032	(\$200,705)
Special Revenue	45,120	21,546	23,574
Capital Projects	590,396	413,050	177,346
Total	\$1,651,843	\$1,651,628	\$215

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

Contrary to Ohio law, in 2007 the Village did not certify amounts available to the budget commission; as a result, appropriations exceeded the amount certified as available by the budgetary commission in all funds. Also, budgetary expenditures exceeded appropriation authority in 2007 in the General, Water and Sewer Funds by \$200,705, \$2,175 and \$983 respectively. In 2008, budgetary expenditures exceeded appropriation authority in the General, Water and Sewer funds by \$498,153, \$14,982 and \$9,082 respectively. Also contrary to Ohio law, at December 31, 2007, the General Fund had a cash deficit balance of \$70,466. At December 31, 2008 the General Fund had a cash deficit balance of \$50,517.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
Operating Note	\$93,820	4.35%
Sewer System Bonds	890,000	5.40%
Total	\$983,820	

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

6. DEBT - (Continued)

The Operating Note is for general operations of the Village. The Village's taxing authority collateralizes the note.

The Sewer System Bonds were issued for the purpose of paying part of the construction costs of constructing wastewater treatment plant improvements.

The Village's taxing authority collateralized the bonds.

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

Year ending December 31:	Operating Note	Sewer System Bonds
2009	\$101,010	\$81,648
2010		79,757
2011		82,868
2012		80,707
2013		78,548
2014-2018		383,718
2019-2023		352,187
2024-2027		248,875
Total	\$101,010	\$1,388,308

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OP&F participants contributed 10% of their wages. For 2008 and 2007, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2008 and 2007, OPERS members contributed 10 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 14 and 13.85%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

8. RISK POOL MEMBERSHIP

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

8. RISK POOL MEMBERSHIP - (Continued)

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

8. RISK POOL MEMBERSHIP - (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006 (the latest information available).

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$38,180. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2006	\$34,319
2007	\$34,693
2008	\$33,200

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Mary Taylor, CPA

Auditor of State

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

Village of Stratton
Jefferson County
PO Box 145
Stratton, Ohio 43961

To the Village Council:

We have audited the financial statements of the Village of Stratton, Jefferson County, (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated August 16, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-005 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe finding number 2008-005, described above, is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 16, 2009.

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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 16, 2009

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

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



Mary Taylor, CPA
Auditor of State

August 16, 2009

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Revised Code Section 5705.10(H) states that money paid into any fund shall be used only for the purpose for which such fund is established.

At December 31, 2007 and 2008, the General Fund had a deficit cash balance of \$70,466 and \$50,517, respectively. The deficit balances indicate that money from another fund(s) was used to pay the obligations of the General Fund.

As the General Fund had a deficit balance at December 31, 2007 and 2008, the Village officials should review programs and services offered and determine if there are opportunities to either increase revenue or to decrease expenditures, and reduce the deficit balance.

Officials' Response:

We are aware of this situation. We have been able to increase our revenues and this should not be an issue in the future.

FINDING NUMBER 2008-002

Noncompliance Citation

Ohio Revised Code Section 5705.36 states on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. **Ohio Revised Code Section 5705.39** states that total appropriations shall not exceed the total of estimated revenue available for expenditures therefrom. Additionally, no appropriation measure shall become effective until the county auditor files with the taxing authority a certificate that the total appropriations from each fund do not exceed the total estimated revenue.

The Village Clerk did not file a certificate showing the total amount from all sources available for expenditures and the unencumbered balances existing at the end of the year with the county auditor for 2007. Failure to file the certificate resulted in an additional citation of Ohio Revised Code Section 5705.39, as appropriations exceeded the amounts of available resources as certified by the budget commission.

Appropriations exceeded the amount certified as available by the budget commission in the following funds during fiscal year 2007:

Fund	Appropriation Authority	Total Estimated Resources	Variance
General	\$1,016,327	\$0	(\$1,106,327)
Street Construction Maintenance & Repair	\$14,532	\$0	(\$14,532)
State Highway Improvement	\$14,296	\$0	(\$14,296)
Water	\$7,500	\$0	(\$7,500)
Sewer	\$8,792	\$0	(\$8,792)
Permanent Improvement	\$590,396	\$0	(\$590,396)

The Clerk should certify to the county auditor the total amount from all sources to establish limits for Council approved appropriations and to ensure there are sufficient resources available for the amounts appropriated. If sufficient resources are not available the Village should request an amended certificate of estimated resources from the budget commission. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by the Village Council to reduce the appropriations.

Officials' Response:

We realize this has been an issue. We will take steps to correct this problem.

FINDING NUMBER 2008-003

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations in the following funds during fiscal year 2007:

Fund	Budgetary Expenditures	Appropriation Authority	Variance
General	\$1,217,032	\$1,016,327	(\$200,705)
Water	\$9,675	\$7,500	(\$2,175)
Sewer	\$9,775	\$8,792	(\$983)

Expenditures exceeded appropriations in the following funds during fiscal year 2008:

Fund	Budgetary Expenditures	Appropriation Authority	Variance
General	\$1,467,236	\$969,083	(\$498,153)
Water	\$19,409	\$4,427	(\$14,982)
Sewer	\$16,445	\$7,363	(\$9,082)

The Village Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources if necessary.

Officials' Response:

We realize this is an issue. We will take steps to amend our appropriations when necessary.

FINDING NUMBER 2008-004

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account. This section also provides three exceptions to the above requirements:

**FINDING NUMBER 2008-004
(Continued)**

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Village Council if such expenditure is otherwise valid.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Village did not certify or record the amount against the applicable appropriation accounts for 17% of tested expenditures. The District did not utilize the certification exceptions described above for those expenditures lacking prior simultaneous certification.

Failure to certify the availability of funds could result in overspending and negative cash balances. The Village should obtain approved purchase orders which include the fiscal officers certification that the amount required to meet the obligation has been lawfully appropriated and authorized prior to making a commitment.

The Village should certify purchases to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language, which Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The Village Clerk should sign the certification at the time the Village incurs a commitment and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Village Clerk should post approved purchase commitments to the proper appropriation code

Officials' Response:

We realize this has been an issue. In the future, we will attempt to take steps to properly certify expenditures.

FINDING NUMBER 2008-005

Material Weakness

The Village did not correctly post all receipts and disbursements in the accounting ledgers for 2007 and 2008, which resulted in adjustments to the financial statements. The Clerk has agreed to the adjustments and reclassifications. The adjustment has been posted to the Village's accounting records and the adjustment and the reclassifications are reflected in the accompanying financial statements.

2008

Fund Name	Account Type	Amount	Description
Reclassification			
General	Intergovernmental Revenue	\$208,807	Senate Bill 3 reimbursement had been posted as other sources
General	Other Sources	\$20,000	To reclassify a reimbursement which had been posted as transfer in
Capital Project	Other Uses	\$20,000	To reclassify a reimbursement which had been posted as transfer out

2007

Fund Name	Account Type	Amount	Description
Reclassification			
Capital Project	Other Uses	\$248,027	Reclassify a reimbursement which had been posted as capital outlay.
Adjustment			
General	Debt Service	\$59,529	Adjust a debt payment which had been made from the capital projects fund.

Failure to adopt and consistently follow a uniform chart of accounts increases the possibility that the Village will not be able to identify, assemble, analyze, classify, record and report its transactions correctly or to document compliance with finance-related legal and contractual requirements. The Village Clerk should maintain an accounting system to enable the Village to identify, assemble, analyze, classify record and report all transactions and to maintain accountability. All transactions should be properly coded and classified according to the adopted chart of accounts to help ensure financial activity of the Village is accurately recorded and reported.

Official's response:

We will try to take steps to post revenue more carefully in the future.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 and 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Revised Code Section 5705.10(H)	No	Cited as 2008-001
2006-002	Ohio Revised Code Section 5705.39	No	Cited as 2008-002
2006-003	Ohio Revised Code Section 5705.41(B)	No	Cited as 2008-003
2006-004	Ohio Revised Code Section 133.32	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF STRATTON

JEFFERSON 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
OCTOBER 13, 2009**