



Dave Yost • Auditor of State



VILLAGE OF STRATTON  
JEFFERSON COUNTY

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# Dave Yost • Auditor of State

Village of Stratton  
Jefferson County  
P.O. Box 145  
Stratton, Ohio 43961

To 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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**Dave Yost**  
Auditor of State

April 19, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Stratton  
Jefferson County  
P.O. Box 145  
Stratton, Ohio 43961

To Village Council:

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

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

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

Instead of the combined funds the accompanying financial statements present, GAAP 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, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011, 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 "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State

April 19, 2011



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, 2010

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Cash Receipts:</b>					
Property and Local Taxes	\$365,565			\$352,928	\$718,493
Municipal Income Tax	2,137,070				2,137,070
Intergovernmental	449,691	\$13,639			463,330
Charges for Services	7,833	17,784			25,617
Fines, Licenses and Permits	585				585
Earnings on Investments	3,451	57			3,508
Miscellaneous	7,205				7,205
<b>Total Cash Receipts</b>	<b>2,971,400</b>	<b>31,480</b>		<b>352,928</b>	<b>3,355,808</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	96,812				96,812
Public Health Services	40,628				40,628
Leisure Time Activities	213,905				213,905
Basic Utility Service	124,724	63,158			187,882
Transportation	134,487	14,670			149,157
General Government	1,232,200				1,232,200
Debt Service:					
Redemption of Principal			\$35,000		35,000
Interest and Fiscal Charges			44,757		44,757
Capital Outlay	275,946			590,740	866,686
<b>Total Cash Disbursements</b>	<b>2,118,702</b>	<b>77,828</b>	<b>79,757</b>	<b>590,740</b>	<b>2,867,027</b>
Total Receipts Over/(Under) Disbursements	852,698	(46,348)	(79,757)	(237,812)	488,781
<b>Other Financing Receipts / (Disbursements):</b>					
Transfers-In		80,000	80,702		160,702
Transfers-Out	(60,000)			(100,702)	(160,702)
Other Financing Sources	33,840				33,840
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>(26,160)</b>	<b>80,000</b>	<b>80,702</b>	<b>(100,702)</b>	<b>33,840</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	826,538	33,652	945	(338,514)	522,621
Fund Cash Balances, January 1	1,348,606	57,953	3,097	471,464	1,881,120
<b>Fund Cash Balances, December 31</b>	<b>\$2,175,144</b>	<b>\$91,605</b>	<b>\$4,042</b>	<b>\$132,950</b>	<b>\$2,403,741</b>

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, 2010**

	<b>Fiduciary Fund Type</b>
	<b>Agency</b>
<b>Non-Operating Cash Receipts:</b>	
Other Non-Operating Cash Receipts	\$450
Total Non-Operating Cash Receipts	450
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Cash Disbursements	450
Total Non-Operating Cash Disbursements	450
Net Receipts Over/(Under) Disbursements	0
Fund Cash Balances, January 1	0
<b>Fund Cash Balances, December 31</b>	<b>\$0</b>

*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, 2009

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Cash Receipts:</b>					
Property and Local Taxes	\$489,530			\$345,506	\$835,036
Municipal Income Tax	1,881,953				1,881,953
Intergovernmental	451,331	\$11,993			463,324
Charges for Services	2,477	12,468			14,945
Fines, Licenses and Permits	485				485
Earnings on Investments	1,774	16			1,790
Miscellaneous	5,750				5,750
<b>Total Cash Receipts</b>	<b>2,833,300</b>	<b>24,477</b>		<b>345,506</b>	<b>3,203,283</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	78,906				78,906
Public Health Services	39,603				39,603
Leisure Time Activities	138,190				138,190
Basic Utility Service	98,798				98,798
Transportation	123,632	47,795			171,427
General Government	824,181	12,710			836,891
Debt Service:					
Redemption of Principal	93,820		\$35,000		128,820
Interest and Fiscal Charges	4,098		46,647		50,745
Capital Outlay	77,456			494,620	572,076
<b>Total Cash Disbursements</b>	<b>1,478,684</b>	<b>60,505</b>	<b>81,647</b>	<b>494,620</b>	<b>2,115,456</b>
Total Receipts Over/(Under) Disbursements	1,354,616	(36,028)	(81,647)	(149,114)	1,087,827
<b>Other Financing Receipts / (Disbursements):</b>					
Transfers-In		57,500	81,647		139,147
Transfers-Out	(37,500)			(101,647)	(139,147)
Other Financing Sources	87,955				87,955
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>50,455</b>	<b>57,500</b>	<b>81,647</b>	<b>(101,647)</b>	<b>87,955</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,405,071	21,472		(250,761)	1,175,782
Fund Cash Balances, January 1 (Restated See note 3)	(56,465)	36,481	3,097	722,225	705,338
<b>Fund Cash Balances, December 31</b>	<b>\$1,348,606</b>	<b>\$57,953</b>	<b>\$3,097</b>	<b>\$471,464</b>	<b>\$1,881,120</b>

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, 2009**

	<b>Fiduciary Fund Type</b>
	<b>Agency</b>
<b>Non-Operating Cash Receipts:</b>	
Other Non-Operating Cash Receipts	\$150
Total Non-Operating Cash Receipts	150
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Cash Disbursements	150
Total Non-Operating Cash Disbursements	150
Net Receipts Over/(Under) Disbursements	0
Fund Cash Balances, January 1	0
<b>Fund Cash Balances, December 31</b>	<b>\$0</b>

*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, 2010 AND 2009**

**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, sewer, and refuse utilities, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

The Village participates in the Public Entities Pool of Ohio (PEP) public entity risk pool. Note 9 to the financial statements provides additional information for this entity. This organization is:

Public Entity 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 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 and investments that are 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.

**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:

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 Fund:

Bond Retirement Fund - This fund receives monies for the purpose of making bond payments.

**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 monies for capital improvements to Village properties.

**5. Fiduciary Funds**

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 for Mayor's Court.

**D. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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.

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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 2010 and 2009 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.

**2. EQUITY IN POOLED DEPOSITS**

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

	2010	2009
Demand deposits	\$2,403,741	\$1,881,120

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

**3. RESTATEMENT OF BEGINNING BALANCES**

Misstatements noted in the prior audit that were previously designated on the Summary of Unadjusted Differences, materially affected the current beginning balances at January 1, 2009. As a result the following restatements of January 1, 2009 fund balances were made for the General and Permanent Improvement Funds:

	General Fund	Permanent Improvement Fund
Beginning fund balance before restatement	(\$50,517)	\$716,277
Amount of misstatement	(5,948)	5,948
Restated beginning fund balance	(\$56,465)	\$722,225

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**4. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,500,000	\$3,005,240	\$505,240
Special Revenue	106,168	111,480	5,312
Debt Service	81,647	80,702	(945)
Capital Projects	330,400	352,928	22,528
Total	\$3,018,215	\$3,550,350	\$532,135

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,854,554	\$2,178,702	\$1,675,852
Special Revenue	144,854	77,828	67,026
Debt Service	84,745	79,757	4,988
Capital Projects	795,916	691,442	104,474
Total	\$4,880,069	\$3,027,729	\$1,852,340

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,912,243	\$2,921,255	\$9,012
Special Revenue	79,426	81,977	2,551
Debt Service	81,647	81,647	0
Capital Projects	325,000	345,506	20,506
Total	\$3,398,316	\$3,430,385	\$32,069

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,009,012	\$1,516,184	\$492,828
Special Revenue	107,281	60,505	46,776
Debt Service	84,745	81,647	3,098
Capital Projects	981,745	596,267	385,478
Total	\$3,182,783	\$2,254,603	\$928,180

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in 2009 by \$689 and \$5,764 in the Water and Sewer Funds, respectively. In 2010, budgetary expenditures exceeded appropriation authority in the Sewer Fund by \$4,673.



**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. 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.

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.

**6. 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.

**7. DEBT**

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$820,000	5%

The Waste Water Bonds were issued for the purpose of paying part of the construction costs of the wastewater treatment plant improvements. The Village's taxing authority collateralized the bonds.

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

	Waste Water Bonds
Year ending December 31:	
2011	\$82,867
2012	80,708
2013	78,547
2014	76,388
2015	79,227
2016-2020	231,978
2021-2025	347,183
2026-2027	303,875
Total	\$1,280,773

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**8. RETIREMENT SYSTEMS**

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. For 2010 and 2009, 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, 2010.

**9. RISK MANAGEMENT**

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.

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2009, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2009 and 2008 (the latest information available)

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	<u>(15,256,862)</u>	<u>(15,310,206)</u>
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**9. RISK MANAGEMENT - (Continued)**

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$31,082.

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.

<b><u>Contributions to PEP</u></b>	
<b><u>2009</u></b>	<b><u>2010</u></b>
\$33,315	\$33,066

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.

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# Dave Yost • 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  
P.O. Box 145  
Stratton, Ohio 43961

To 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, 2010 and 2009, and have issued our report thereon dated April 19, 2011, 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-003 described in the accompanying schedule of findings to be a material weakness.

### **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 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 19, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

April 19, 2011

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the clerk of the subdivision that the amount required to meet the obligation 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 encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due there.

There are several exceptions to the standard requirement stated above that a clerks' certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

1. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the clerks' 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 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 Council if such expenditure is otherwise valid.

2. Blanket Certificate – The Clerk 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 Clerk did not certify or record the amount against the applicable appropriation accounts for 37% and 5% of tested 2010 and 2009 expenditures, respectively. The Village did not properly utilize the certification exceptions described above for those expenditures lacking prior certification. Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Clerk should certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

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 authorizing disbursements. The fiscal officer 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 should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2010-002**

**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:

<b>Fund</b>	<b>Budgetary Expenditures</b>	<b>Appropriation Authority</b>	<b>Variance</b>
<b>2009</b>			
Water	\$21,422	\$20,733	\$689
Sewer	\$26,373	\$20,609	\$5,764
<b>2010</b>			
Sewer	\$36,765	\$32,092	\$4,673

The 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.

**FINDING 2010-003**

**Material Weakness**

The Village Clerk did not accurately post the amounts of appropriations as approved by Council or the amounts of estimated resources as certified by the budget commission to the ledgers. The incorrect amounts of appropriations and estimated resources were also presented in the budgetary activity note to the financial statements. The budgetary activity note was adjusted to reflect the correct amounts of appropriations as approved by Council and the amounts of estimated resources as certified by the budget commission. The Village Clerk has agreed to these adjustments.

The amounts of approved appropriations and certified resources, the amounts posted, and the variances are presented below.



**FINDING 2010-003  
 (Continued)**

<b>Year</b>	<b>Appropriation Authority</b>	<b>Appropriations Posted to Ledgers</b>	<b>Variance</b>
2010	\$4,880,068	\$4,899,936	(\$19,868)
2009	\$3,182,784	\$4,103,654	(\$920,870)

<b>Year</b>	<b>Certificate of Estimated Resources</b>	<b>Resources Posted to Ledgers</b>	<b>Variance</b>
2010	\$3,018,216	\$0	\$3,018,216
2009	\$3,398,317	\$0	\$3,398,317

As the appropriation resolution and subsequent amendments establish the legal spending authority of the Village and the appropriation ledger provides the process by which the Village controls spending, it is necessary that the amounts appropriated by the Village Council are precisely stated and accurately posted to the appropriation ledger.

As the original certificate and amendments establish the amounts available for expenditures in the Village and the receipt ledger provides the process by which the Village controls what is available, it is necessary that the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.

Failure to accurately post the appropriations and estimated resources to the ledgers could result in overspending and negative cash balances. To effectively control the budgetary cycle and to maintain accountability over Village expenditures and revenues, the Village Clerk should post to the ledgers, on a timely basis, appropriation amounts as passed by Council and estimated resources as certified by the budget commission. Council should also monitor budget versus actual reports to ensure supplemental and amended appropriations and amended certificates of resources have been properly posted.

**Officials' Response**

We did not receive a response from officials to the findings reported above.

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**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	ORC 5705.40 (H), deficit balance in General Fund at 12/31/08 and 12/31/07	Yes	
2008-002	ORC 5705.36 & 39, failure to file certificate of amount available for expenditure resulting in appropriations exceeding estimated resources	Yes	
2008-003	ORC 5705.41(B), Disbursements exceeded appropriations	No	Reissued as Finding 2010-002
2008-004	ORC 5705.41 (D), failure to encumber	No	Reissued as Finding 2010-001
2008-005	Material Weakness – failure to correctly post all receipts and disbursements	Yes	

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# Dave Yost • 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  
JUNE 30, 2011