



Dave Yost • Auditor of State

VILLAGE OF STRATTON
JEFFERSON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2014	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2014	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2013	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2013	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	21

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Stratton, Jefferson County, (the "Village") as of and for the years ended December 31, 2014 and 2013.

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 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.

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

As described in Note 1 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, 2014 and 2013, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Stratton, Jefferson County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2015, 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.



Dave Yost
Auditor of State
Columbus, Ohio

August 17, 2015

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$268,168			\$268,031	\$536,199
Municipal Income Tax	527,936				527,936
Intergovernmental	357,026	\$10,416	\$216		367,658
Charges for Services	3,303	28,926			32,229
Fines, Licenses and Permits	748				748
Earnings on Investments	59	2			61
Miscellaneous	5,825				5,825
<i>Total Cash Receipts</i>	<u>1,163,066</u>	<u>39,344</u>	<u>216</u>	<u>268,031</u>	<u>1,470,656</u>
Cash Disbursements					
Current:					
Security of Persons and Property	64,591				64,591
Public Health Services	19,453				19,453
Leisure Time Activities	165,252				165,252
Basic Utility Services	118,743	41,821			160,564
Transportation	130,006	18,006			148,012
General Government	846,309				846,309
Capital Outlay				4,000	4,000
Debt Service:					
Principal Retirement			40,000		40,000
Interest and Fiscal Charges			36,387		36,387
<i>Total Cash Disbursements</i>	<u>1,344,353</u>	<u>59,827</u>	<u>76,387</u>	<u>4,000</u>	<u>1,484,567</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(181,287)</u>	<u>(20,484)</u>	<u>(76,171)</u>	<u>264,031</u>	<u>(13,911)</u>
Other Financing Receipts (Disbursements)					
Transfers In	465,134	35,271	75,982		576,387
Transfers Out	(35,271)			(541,116)	(576,387)
Other Financing Sources	20,085				20,085
<i>Total Other Financing Receipts (Disbursements)</i>	<u>449,949</u>	<u>35,271</u>	<u>75,982</u>	<u>(541,116)</u>	<u>20,085</u>
<i>Net Change in Fund Cash Balances</i>	268,661	14,787	(189)	(277,086)	6,174
<i>Fund Cash Balances, January 1</i>	<u>10,390</u>	<u>99,055</u>	<u>189</u>	<u>334,630</u>	<u>444,264</u>
Fund Cash Balances, December 31					
Restricted		105,670		53,648	159,319
Unassigned (Deficit)	279,052	8,172		3,896	291,120
<i>Fund Cash Balances, December 31</i>	<u>\$279,052</u>	<u>\$113,842</u>	<u>\$0</u>	<u>\$57,544</u>	<u>\$450,438</u>

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Agency</u>
Operating Cash Receipts	
Fines, Licenses and Permits	\$125
<i>Total Operating Cash Receipts</i>	<u>125</u>
Operating Cash Disbursements	
General Government	<u>125</u>
<i>Total Operating Cash Disbursements</i>	<u>125</u>
<i>Net Change in Fund Cash Balances</i>	0
<i>Fund Cash Balances, January 1</i>	<u>0</u>
<i>Fund Cash Balances, December 31</i>	<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 RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$275,269			\$272,938	\$548,207
Municipal Income Tax	516,704				516,704
Intergovernmental	359,464	\$11,602	\$189		371,255
Charges for Services	3,370	21,223			24,593
Fines, Licenses and Permits	580				580
Earnings on Investments	142	3			145
Miscellaneous	5,525				5,525
<i>Total Cash Receipts</i>	<u>1,161,054</u>	<u>32,828</u>	<u>189</u>	<u>272,938</u>	<u>1,467,009</u>
Cash Disbursements					
Current:					
Security of Persons and Property	110,962				110,962
Public Health Services	20,289				20,289
Leisure Time Activities	282,130				282,130
Basic Utility Services	143,337	56,189			199,526
Transportation	130,324	10,823			141,147
General Government	1,078,474				1,078,474
Capital Outlay				249,823	249,823
Debt Service:					
Principal Retirement			40,000		40,000
Interest and Fiscal Charges			38,547		38,547
<i>Total Cash Disbursements</i>	<u>1,765,515</u>	<u>67,012</u>	<u>78,547</u>	<u>249,823</u>	<u>2,160,897</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(604,462)</u>	<u>(34,184)</u>	<u>(78,358)</u>	<u>23,115</u>	<u>(693,889)</u>
Other Financing Receipts (Disbursements)					
Transfers In		8,172	74,316		82,488
Transfers Out	(8,172)			(74,316)	(82,488)
Other Financing Sources	27,935				27,935
<i>Total Other Financing Receipts (Disbursements)</i>	<u>19,763</u>	<u>8,172</u>	<u>74,316</u>	<u>(74,316)</u>	<u>27,935</u>
<i>Net Change in Fund Cash Balances</i>	<u>(584,699)</u>	<u>(26,012)</u>	<u>(4,042)</u>	<u>(51,201)</u>	<u>(665,954)</u>
<i>Fund Cash Balances, January 1</i>	<u>595,088</u>	<u>125,067</u>	<u>4,231</u>	<u>385,831</u>	<u>1,110,217</u>
Fund Cash Balances, December 31					
Restricted		99,055	189	334,630	433,874
Unassigned (Deficit)	10,390				10,390
<i>Fund Cash Balances, December 31</i>	<u>\$10,390</u>	<u>\$99,055</u>	<u>\$189</u>	<u>\$334,630</u>	<u>\$444,264</u>

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

VILLAGE OF STRATTON
JEFFERSON COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Agency
Operating Cash Receipts	
Fines, Licenses and Permits	\$250
<i>Total Operating Cash Receipts</i>	250
Operating Cash Disbursements	
General Government	250
<i>Total Operating Cash Disbursements</i>	250
<i>Net Change in Fund Cash Balances</i>	0
<i>Fund Cash Balances, January 1</i>	0
<i>Fund Cash Balances, December 31</i>	\$0

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, 2014 AND 2013**

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 the Public Entities Pool of Ohio (PEP). Note 8 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

The Public Entity Pool of Ohio is a risk-sharing pool available to Ohio local governments. The PEP provides property and casualty coverage to 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 member's 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 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.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2. 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:

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

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

3. Debt Service Fund

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following 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 and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Permanent Improvement Fund – This fund receives levy monies for capital improvements for the Village.

5. Fiduciary 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 fees collected and distributed to the Village and the State.

E. Budgetary Process

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

1. Appropriations

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 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.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. 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:

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2014	2013
Demand deposits	\$450,438	\$444,264

Deposits: Deposits are collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,000,000	\$1,648,285	\$648,285
Special Revenue	85,000	74,615	(10,385)
Debt Service	80,000	76,198	(3,802)
Capital Projects	269,000	268,031	(969)
Total	\$1,434,000	\$2,067,128	\$633,128

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,010,390	\$1,379,624	(\$369,234)
Special Revenue	184,055	59,827	124,228
Debt Service	80,189	76,387	3,802
Capital Projects	603,630	545,116	58,514
Total	<u>\$1,878,265</u>	<u>\$2,060,954</u>	<u>(\$182,689)</u>

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$991,828	\$1,188,989	\$197,161
Special Revenue	93,172	41,000	(52,172)
Debt Service	140,434	74,505	(65,929)
Capital Projects	207,566	272,938	65,372
Total	<u>\$1,433,000</u>	<u>\$1,577,432</u>	<u>\$144,432</u>

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,601,036	\$1,773,687	(\$172,651)
Special Revenue	210,067	67,012	143,055
Debt Service	144,665	78,547	66,118
Capital Projects	587,449	324,139	263,310
Total	<u>\$2,543,217</u>	<u>\$2,243,385</u>	<u>\$299,832</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund for the years ended December 31, 2014 and 2013 in the amounts of \$369,234 and \$172,651, respectively.

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.

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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, 2014 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$660,000	5%

The Sanitary Sewer System Bonds were issued for the purpose of paying part of the construction costs of the waste water treatment plant improvements. The Village expects the bonds to be paid from a permanent improvement levy, proceeds of a 1% income tax and net revenues of the utility.

The Village's taxing authority collateralized the bonds.

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

	Sanitary Sewer System Bonds
Year ending December 31:	
2015	79,227
2016	76,798
2017	74,367
2018	76,938
2019	74,437
2020-2024	294,300
2025-2027	182,325
Total	\$858,392

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 2014 and 2013, OP&F participants contributed 10% of their wages from January 1, 2013 through June 30, 2013 and 10.75% of their wages through December 31, 2014. For 2014 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2014 and 2013, 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, 2014.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local Villages. 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 Villages 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, 2014, PEP retained \$350,000 for casualty claims and \$100,000 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 Village.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	<u>(12,760,194)</u>	<u>(12,363,257)</u>
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Village's share of these unpaid claims collectible in future years is approximately \$28,806.

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.

VILLAGE OF STRATTON
JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

8. RISK POOL MEMBERSHIP – (Continued)

<u>Contributions to PEP</u>	
<u>2013</u>	<u>2014</u>
\$42,672	\$43,645

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.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Stratton, Jefferson County, (the "Village") as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2015, wherein we noted the Village followed financial reporting provisions Ohio Revised Codes Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our 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.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies in internal control. We consider findings 2014-002 through 2014-003 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Findings

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.

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.



Dave Yost
Auditor of State
Columbus, Ohio

August 17, 2015

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-001

Noncompliance Citation

Expenditures Exceeded Appropriations

Ohio Rev. Code § 5705.41(B) states in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

Due to authorized appropriations not being properly recorded in the Village’s accounting records, as described in finding number 2014-002, expenditures exceeded appropriations in the General Fund as of December 31, 2014 and 2013 in the amounts of \$369,264 and \$172,651, respectively. In addition, expenditures exceed appropriations in the Water Special Revenue Fund at December 31, 2014 in the amount of \$9,517 and in the Sewer Special Revenue Fund at December 31, 2013 in the amount of \$23,963.

Spending money in excess of appropriations could lead to deficit balances.

We recommend the Village take the steps necessary to monitor actual expenditures in comparison to appropriations. When necessary, appropriations should be amended to meet the level of spending, If it is not possible to make the necessary appropriation amendments, the Village should take the necessary measure to reduce spending within appropriated levels.

Official’s Response: As the Village Fiscal Officer, appropriations are entered into the system after the Annual Appropriation Ordinance is passed. If amendments are required I do them at the end of the year. I will start doing them at the time they occur to make sure none are missed. The Village has cut its spending this year in hopes that it will help this situation.

FINDING NUMBER 2014-002

Significant Deficiency

Proper Posting of Authorized Budgetary Measures

Sound accounting practices require accurately posting estimated receipts and appropriations to the ledgers to provide information for budget versus actual comparison and to allow village council to make informed decisions regarding budgetary matters.

Due to a lack of oversight of village officials, the Village did not accurately post authorized budgetary measures to the accounting ledgers in 2014 and 3. The following variances were identified:

2013:

Fund	Certificate of Estimated Resources	Resources Posted to the Ledgers	Variance
Special Revenue	\$218,239	\$222,136	\$3,897
Permanent Improvement	526,015	583,553	57,538

**FINDING NUMBER 2014-002
 (Continued)**

2014

Fund	Appropriations Posted to System	Appropriations Approved by Council	Variance
General	\$1,475,524	\$1,010,390	\$465,134
Special Revenue	219,326	184,055	35,271

2013

Fund	Appropriations Posted to System	Appropriations Approved by Council	Variance
General	\$1,592,864	\$1,601,036	\$8,172
Special Revenue	218,239	210,067	8,172
Debt Service	206,099	144,665	61,434
Capital Projects	522,119	587,449	65,330

When authorized budgetary measures are not accurately posted to the ledgers, the budget vs. actual information generated by the Village's accounting system is not an accurate reflection of the intentions of the Council.

We recommend the Village take steps to ensure that all budgetary amendments are posted in an accurate and timely manner.

Official's Response: Appropriations are amended at the end of each year per Council Ordinance. Perhaps I am not recording it correctly in the computer. I will make sure that I am amending them appropriately. The Village has drastically cut our spending. There may also possibly be a software problem, as it was brought up that there are entities that use the same computer system as the Village, are also having problems. I will contact the owner of the computer software company to see if this is a possibility, and if it can be corrected. If not, there is no other choice than to consider changing our computer system.

FINDING NUMBER 2014-003

Significant Deficiency

Utility Billing Cycle

The water, sewer and refuse collection cycle lacks sufficient internal controls and monitoring by the Board of Public Affairs. The following weaknesses were noted:

- In 2013, a variance was identified between the amounts posted to the cash book and amounts deposited to the bank and remitted to the Village in the amounts of \$278 and \$1,203, respectively. The variance was due to the Clerk posting utility receipts in the prior period when a customer had a delinquent account and provided payment in a subsequent year; amounts were not posted in the proper year. This matter was corrected in 2014;
- Several instances where a \$5 penalty was applied and never paid and subsequently waived by the Village. This method was not consistent for all utility customers;
- Several instances throughout the audit period where the clearing account did not have a zero balance;

**FINDING NUMBER 2014-003
(Continued)**

- Monies collected from the post office box are taken to the utility clerk's home and deposited with the bank at a later date as opposed to being deposited with the bank upon collection; and
- Residents are permitted to pay utility bills at the local market instead of mailing the payments to the village or paying directly at the Village Hall. While this is a convenience offered to the residents to help avoid delinquent payment fees, these cash payments are being opened and stamped as paid by a cashier at this market who is not an employee of the village nor is bonded. This increases the risk of theft or fraud. In addition, not all payment stubs included the method of payment, amount paid, payment date and who collected the payment.

These weaknesses were the result of the lack of a policies and procedural manual. Failure to establish a strong system of internal controls over utilities could result in audit adjustments to the financial statements and misuse of public funds.

We recommend the Board of Public Affairs establish procedures by which the utility payments will be collected, deposited, posted to the ledgers and remitted to the village treasurer. The procedures should include, but not be limited to, timely depositing, accurate posting to subsidiary, utility and village ledgers, monthly reconciliations and retention of all documentation. In addition, the Village should establish a delinquent account policy to provide guidance over delinquent accounts, shutoff of utility, and the consistent application of the \$5 penalty fee. The clerk should post delinquent amounts received in the year in which payment was made. Finally, we recommend all utility payments be mailed to the village post office box or paid directly at the village hall to ensure monies are handled by a bonded Village employee.

Officials' Response: Due to the utility clerk being seriously ill, bills were sent out late. Therefore, the late penalty was not enforced. Monies received were deposited the next day when possible.

This page intentionally left blank.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	A debt payment was made from the wrong fund which resulted in an audit adjustment.	Yes	

This page intentionally left blank.



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
OCTOBER 8, 2015