



Dave Yost • Auditor of State

VILLAGE OF STRATTON
JEFFERSON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Stratton, Jefferson County, (the "Village") as of and for the years ended December 31, 2016 and 2015.

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 2 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, 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, as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2017, 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

June 7, 2017

Village of Stratton
Jefferson County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$1,187,599				\$1,187,599
Municipal Income Tax	461,698				461,698
Intergovernmental	335,012	\$10,137	\$367		345,516
Charges for Services	3,243	12,108			15,351
Earnings on Investments	97	2			99
Miscellaneous	4,250				4,250
<i>Total Cash Receipts</i>	<u>1,991,899</u>	<u>22,247</u>	<u>367</u>	<u>0</u>	<u>2,014,513</u>
Cash Disbursements					
Current:					
Security of Persons and Property	91,229				91,229
Public Health Services	25,021				25,021
Leisure Time Activities	123,477				123,477
Basic Utility Services	108,380	45,232			153,612
Transportation	129,015				129,015
General Government	1,009,567				1,009,567
Capital Outlay	0			\$17,000	17,000
Debt Service:					
Principal Retirement			45,000		45,000
Interest and Fiscal Charges			31,797		31,797
<i>Total Cash Disbursements</i>	<u>1,486,689</u>	<u>45,232</u>	<u>76,797</u>	<u>17,000</u>	<u>1,625,718</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>505,210</u>	<u>(22,985)</u>	<u>(76,430)</u>	<u>(17,000)</u>	<u>388,795</u>
Other Financing Receipts (Disbursements)					
Transfers In		33,124	76,249		109,373
Transfers Out	(33,124)			(76,249)	(109,373)
Other Financing Sources	2,485				2,485
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(30,639)</u>	<u>33,124</u>	<u>76,249</u>	<u>(76,249)</u>	<u>2,485</u>
<i>Net Change in Fund Cash Balances</i>	474,571	10,139	(181)	(93,249)	391,280
<i>Fund Cash Balances, January 1</i>	<u>155,567</u>	<u>116,360</u>	<u>181</u>	<u>233,818</u>	<u>505,926</u>
Fund Cash Balances, December 31					
Restricted		126,499		140,569	267,068
Unassigned (Deficit)	630,138				630,138
<i>Fund Cash Balances, December 31</i>	<u>\$630,138</u>	<u>\$126,499</u>	<u>\$0</u>	<u>\$140,569</u>	<u>\$897,206</u>

See accompanying notes to the basic financial statements

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

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

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio (PEP). Note 10 to the financial statements provides additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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.

Debt Service Fund This fund accounts for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund

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

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

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 funds:

Permanent Improvement Fund The permanent improvement fund accounts for capital improvement projects within the Village. The proceeds are restricted for capital improvements for the Village.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for fines and fees collected and distributed to the Village and State of Ohio. The fund had no activity or fund balance due to suspended activity.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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

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

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

A summary of 2016 budgetary activity appears in Note 3.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

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

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

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

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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Note 3 - Compliance

Contrary to Ohio law, the appropriation authority exceeded estimated resources in the Street Construction, Maintenance and Repair, Water and Sewer Special Revenue Funds in the amounts of \$3,622, \$20,500 and \$18,268, respectively. In addition, the State Highway Improvement and Bond Payment Debt Service Fund had appropriations exceeding estimated resources in the amount of \$2,239 and \$2,683, respectively. Also contrary to Ohio law, at December 31, 2016, expenses exceeded the appropriation authority in the General Fund in the amount of \$264,430.

Note 4 - Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,994,384	\$1,994,384	\$0
Special Revenue	55,371	55,371	0
Debt Service	76,616	76,616	0
Total	\$2,126,371	\$2,126,371	\$0

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,255,568	\$1,519,998	(\$264,430)
Special Revenue	216,360	47,237	169,123
Debt Service	79,481	76,797	2,684
Capital Projects	233,818	93,249	140,569
Total	\$1,785,227	\$1,737,281	\$47,946

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 5 – 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:

	2016
Demand deposits	<u>\$897,206</u>

Deposits

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

At December 31, 2016, \$647,206 of deposits were not insured or collateralized, contrary to Ohio law.

Note 6 – Taxes

Property Taxes

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

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

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

Income Taxes

The Village levies a municipal income tax of one 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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 6 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants’ gross salaries. The Village has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System

Village’s full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members’ wages. The Village has paid all contributions required through December 31, 2016.

Note 7 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 8 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Sanitary System Sewer Bonds	\$570,000	5%

The Sanitary Sewer Systems 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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 8 – Debt (Continued)

Amortization

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

Year ending December 31:	Sanitary System <u>Sewer Bonds</u>
2017	\$74,367
2018	76,937
2019	74,437
2020	71,937
2021	69,437
2022-2026	327,362
2027	<u>57,887</u>
Total	<u>\$752,364</u>

Note 9 – Contingent Liabilities

On April 8, 2015 Council approved Resolution 2015-03 entering into an agreement with First Energy to refund an overpayment of Municipal Income Tax in the amount of \$332,948 as certified and issued by the Ohio Department of Taxation. Monthly payments in the amount of \$6,936 began in April of 2015 and will end in March of 2019.

Note 10 – Public Entity Risk Pool

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. 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 York. 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, 2016, 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 government.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 10 – Public Entity Risk Pool (Continued)

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Government's share of these unpaid claims collectible in future years is approximately \$27,692.

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>2016 Contributions to PEP</u> <u>\$43,956</u>

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.

Village of Stratton
Jefferson County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$264,155			\$264,017	\$528,172
Municipal Income Tax	580,361				580,361
Intergovernmental	348,519	\$11,024	\$181		359,724
Charges for Services	3,320	20,759			24,079
Earnings on Investments	70	1			71
Miscellaneous	5,700				5,700
<i>Total Cash Receipts</i>	<u>1,202,125</u>	<u>31,784</u>	<u>181</u>	<u>264,017</u>	<u>1,498,107</u>
Cash Disbursements					
Current:					
Security of Persons and Property	82,921				82,921
Public Health Services	23,829				23,829
Leisure Time Activities	87,043				87,043
Basic Utility Services	107,983	39,457			147,440
Transportation	126,928	8,508			135,436
General Government	880,978				880,978
Capital Outlay	58,972			8,516	67,488
Debt Service:					
Principal Retirement			45,000		45,000
Interest and Fiscal Charges			34,228		34,228
<i>Total Cash Disbursements</i>	<u>1,368,654</u>	<u>47,965</u>	<u>79,228</u>	<u>8,516</u>	<u>1,504,363</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(166,529)</u>	<u>(16,181)</u>	<u>(79,047)</u>	<u>255,501</u>	<u>(6,256)</u>
Other Financing Receipts (Disbursements)					
Transfers In		18,698	79,228		97,926
Transfers Out	(18,698)			(79,228)	(97,926)
Other Financing Sources	61,743				61,743
<i>Total Other Financing Receipts (Disbursements)</i>	<u>43,045</u>	<u>18,698</u>	<u>79,228</u>	<u>(79,228)</u>	<u>61,743</u>
<i>Net Change in Fund Cash Balances</i>	<u>(123,484)</u>	<u>2,517</u>	<u>181</u>	<u>176,273</u>	<u>55,487</u>
<i>Fund Cash Balances, January 1</i>	<u>279,051</u>	<u>113,843</u>	<u>0</u>	<u>57,545</u>	<u>450,439</u>
Fund Cash Balances, December 31					
Restricted		116,360	181	233,818	350,359
Unassigned (Deficit)	155,567				155,567
<i>Fund Cash Balances, December 31</i>	<u>\$155,567</u>	<u>\$116,360</u>	<u>\$181</u>	<u>\$233,818</u>	<u>\$505,926</u>

See accompanying notes to the basic financial statements

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

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

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Note 2 - Summary of Significant Accounting Policies

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Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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

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

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

A summary of 2015 budgetary activity appears in Note 3.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

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

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

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

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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Note 3 - Compliance

Contrary to Ohio law, the appropriation authority exceeded estimated resources in the Water and Sewer Special Revenue Funds in the amounts of \$22,023 and \$22,520, respectively. Also contrary to Ohio law, at December 31, 2015, expenses exceeded the appropriation authority in the General Fund in the amount of \$108,301.

Note 4 - Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,263,868	\$1,263,868	\$0
Special Revenue	50,482	50,482	0
Debt Service	79,409	79,409	0
Capital Projects	264,017	264,017	0
Total	\$1,657,776	\$1,657,776	\$0

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,279,051	\$1,387,352	(\$108,301)
Special Revenue	213,843	47,965	165,878
Debt Service	79,300	79,228	72
Capital Projects	327,545	87,744	239,801
Total	\$1,899,739	\$1,602,289	\$297,450

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 5 – 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:

	2015
Demand deposits	<u>\$505,926</u>

Deposits

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

At December 31, 2015, \$255,926 of deposits were not insured or collateralized, contrary to Ohio law.

Note 6 – Taxes

Property Taxes

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

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

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

Income Taxes

The Village levies a municipal income tax of one 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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 6 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System

Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 11.5% of their wages from January 1, 2015 through June 30, 2015 and contributed 12.25% of their wages from July 1, 2015 through December 31, 2015. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

Note 7 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 8 – Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary System Sewer Bonds	<u>\$615,000</u>	5%

The Sanitary Sewer Systems 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.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 8 – Debt (Continued)

Amortization

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

Year ending December 31:	Sanitary System Sewer Bonds
2016	\$76,797
2017	74,367
2018	76,937
2019	74,437
2020	71,937
2021-2025	336,025
2026-2027	118,663
Total	<u>\$752,366</u>

Note 9 – Contingent Liabilities

On April 8, 2015 Council approve Resolution 2015-03 entering into an agreement with First Energy to refund an overpayment of Municipal Income Tax in the amount of \$332,948 as certified and issued by the Ohio Department of Taxation. Monthly payments in the amount of \$6,936 began in April of 2015 and will end in March of 2019.

Note 10 – Public Entity Risk Pool

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. 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 York. 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, 2015, 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 government.

Village of Stratton
Jefferson County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 10 – Public Entity Risk Pool (Continued)

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015:

	<u>2015</u>
Assets	\$38,307,677
Liabilities	<u>(12,759,127)</u>
Net Position	<u>\$25,548,550</u>

At December 31, 2015, the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village's share of these unpaid claims collectible in future years is approximately \$27,480.

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>2015 Contributions to</u> <u>PEP</u> <u>\$43,619</u>
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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 cash balances, receipts and disbursements by fund type of the Village of Stratton, Jefferson County, (the "Village") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2017 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit..

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 opinions 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-003 and 2016-004 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 and 2016-002.

Village'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

June 7, 2017

**VILLAGE OF STRATTON
JEFFERSON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Noncompliance – Appropriations Exceeded Estimated Resources

Ohio Rev. Code § 5705.39 requires that total appropriations from each fund should not exceed the total estimated resources from each fund.

At December 31, 2016, total appropriations exceeded total estimated resources in the following funds:

Fund	Appropriations	Estimated Resources	Variance
Special Revenue Funds:			
Street Construction, Maintenance and Repair	\$14,709	\$11,087	\$3,622
State Highway Improvement	17,651	15,412	2,239
Water	42,000	21,500	20,500
Sewer	42,000	23,732	18,268
Bond Payment Debt Service Fund	79,481	76,798	2,683

At December 31, 2015, total appropriations exceeded total estimated resources in the following funds:

Fund	Appropriations	Estimated Resources	Variance
Special Revenue Funds:			
Street Construction, Maintenance and Repair	\$13,000	\$10,217	\$2,783
State Highway Improvement	16,843	14,651	2,192
Water	42,000	19,977	22,023
Sewer	42,000	19,480	22,520
Permanent Improvement Capital Projects Fund	323,648	317,665	5,983

In addition, the final certificates for the period ending December 31, 2016 and 2015 were not completed until February 22, 2017.

The Village does not have a policy in place to monitor this budgetary measure. By appropriating more monies than available, the Village risks overspending within the respective fund and a possible negative fund balance.

Officials' Response: The Clerk will complete the required certificates on a timely basis and update the Appropriations vs. Estimated Resources in a more efficient manner.

FINDING NUMBER 2016-002

Noncompliance – Disbursements Plus Encumbrances Exceeded Appropriations

Ohio Rev. Code §5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

At December 31, 2016 and 2015, disbursements plus encumbrances exceeded appropriations in the General Fund by \$264,246 (21%) and \$108,301 (8%), respectively.

The Village Clerk/Treasurer did not update appropriations within the Accounting System which led to Council not having adequate and updated information to base budgetary decisions upon. This could also result in overspending and negative fund balances.

The Village Clerk/Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk/Treasurer should request Council to approve increased disbursement levels by increasing appropriations in the minutes and amending estimated resources, if necessary and available.

Officials’ Response: Due to the certificate of Estimated Resources not being done timely, this non-compliance occurred. The Clerk/Treasurer will certify all amendments to the County Auditor in a timely manner.

FINDING NUMBER 2016-003

Material Weakness – 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.

The Village did not have procedures in place to accurately post authorized budgetary measures to the accounting ledgers in 2016 and 2015. The following variances were identified:

2016:

Fund	Certificate of Estimated Resources	Resources Posted in the Ledgers	Variance
General	\$1,542,919	\$0	\$1,542,919
Special Revenue	164,325	0	164,325
Debt Service	79,409	0	79,409
Perm. Improvement Capital Projects	321,562	0	321,562

2015:

Fund	Certificate of Estimated Resources	Resources Posted in the Ledgers	Variance
General	\$2,149,952	\$0	\$2,149,952
Special Revenue	171,731	0	171,731
Debt Service	76,797	0	76,797
Perm. Improvement Capital Projects	233,818	0	233,818

**FINDING NUMBER 2016-003
 (Continued)**

2016:

Fund	Appropriations Approved by Council	Appropriations Posted to Accounting System	Variance
General	\$1,255,567	\$2,003,384	\$747,817

2015:

Fund	Appropriations Approved by Council	Appropriations Posted to Accounting System	Variance
General	\$1,279,051	\$1,524,221	\$245,170
Special Revenue:			
Water	42,000	55,137	13,137
Sewer	42,000	47,561	5,561
Debt Service	79,300	158,527	79,227
Permanent Improvement Capital Projects	327,545	248,317	79,228

In addition, amounts presented in the Budgetary Note to the Financial Statements did not agree to amounts within the accounting system and did not reflect amounts approved by council. Audit adjustments have been made to correct the Note.

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

The Village Clerk/Treasurer and Council should take steps to help ensure that all budgetary amendments are posted in an accurate and timely manner.

Officials' Response: The Clerk will correct and post estimated resources to the accounting system.

FINDING NUMBER 2016-004

Material Weakness – Posting of Receipts and Expenses

Sound financial reporting is the responsibility of the Village Clerk/Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Village Clerk/Treasurer did not correctly post receipts and disbursements. This was attributed to the Clerk/Treasurer not abiding by the adopted chart of accounts or the Auditor of State Village financial statement shell and the lack of procedures to help ensure accurate postings. The Village Clerk/Treasurer has agreed to and posted the following adjustments and reclassifications, which are reflected in the accompanying financial statements:

**FINDING NUMBER 2016-004
 (Continued)**

2016:

Fund	Account Type	Amount	Description
Reclassifications:			
General	Property and Other Local Taxes	\$1,187,599	To separate these line items on the financial statements.
	Income Taxes	451,579	To separate these line items on the financial statements.
	Intergovernmental Revenue and Other Financing Sources	149,489	To reclassify State and local revenue posted as an Other Financing Source instead of Intergovernmental Revenue.
	Income Tax and Other Financing Sources	10,119	To reclassify an income tax receipt posted as an Other Financing source.
	Intergovernmental and Charges for Services	8,750	To reclassify a state grant posted as charges for services revenue.
Debt Service	Principal Retirement	45,000	To separate this line item on the financial statements.
	Interest and Fiscal Charges	31,797	To separate this line item on the financial statements.
Adjustments:			
General	Unassigned Fund Balance	630,138	To adjust ending balance in accordance with GASB Statement 54.
Special Revenue	Restricted Fund Balance	126,499	To adjust ending balance in accordance with GASB Statement 54.
Capital Projects	Restricted Fund Balance	140,569	To adjust ending balance in accordance with GASB Statement 54.

**FINDING NUMBER 2016-004
 (Continued)**

2015:

Fund	Account Type	Amount	Description
Reclassifications:			
General	Property and Other Local Taxes	\$264,155	To separate these line items on the financial statements.
	Income Taxes	580,361	To separate these line items on the financial statements.
	Intergovernmental Revenue and Other Financing Sources	158,271	To reclassify State and local revenue posted as an Other Financing Source instead of Intergovernmental Revenue.
Debt Service	Principal Retirement	45,000	To separate this line item on the financial statements.
	Interest and Fiscal Charges	34,227	To separate this line item on the financial statements.
Adjustments:			
General	Unassigned Fund Balance	155,568	To adjust ending balance in accordance with GASB Statement 54.
Special Revenue	Restricted Fund Balance	116,360	To adjust ending balance in accordance with GASB Statement 54.
Debt Service	Restricted Fund Balance	181	To adjust ending balance in accordance with GASB Statement 54.
Capital Projects	Restricted Fund Balance	233,818	To adjust ending balance in accordance with GASB Statement 54.

The Clerk/Treasurer should maintain the 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 chart of accounts and settlement sheets to help ensure that financial activity of the Village is accurately recorded and reported.

Officials' Response: All accounting errors will be corrected in a timely manner. The Clerk and the Treasurer will communicate more closely on where revenue should be posted into the system and on the Annual Financial Report.

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VILLAGE OF STRATTON
JEFFERSON COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015

Finding Number	Finding Summary	Status	Additional Information
2014-001	Expenditures exceeded appropriations in the General and Water and Sewer Funds	Not Corrected	Re-issued as Finding 2016-002.
2014-002	Authorized budgetary amounts did not agree to amounts posted to the accounting system	Not Corrected	Re-issued as Finding 2016-003.
2014-003	The Utility billing cycle included several weaknesses	Partially Corrected	Re-issued in the management letter.

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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 29, 2017