



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
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, 2012 and 2011.

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 of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; 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 opinion.

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, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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, 2012 and 2011, or changes in financial position thereof for the year 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, 2012 and 2011, 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 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village of Stratton adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013, 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 20, 2013

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, 2012

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$263,520			\$261,516	\$525,036
Municipal Income Tax	535,855				535,855
Intergovernmental	384,449	\$10,741	\$189		395,379
Charges for Services	3,270	24,970			28,240
Fines, Licenses and Permits	625				625
Earnings on Investments	481	10			491
Miscellaneous	5,150				5,150
<i>Total Cash Receipts</i>	<u>1,193,350</u>	<u>35,721</u>	<u>189</u>	<u>261,516</u>	<u>1,490,776</u>
Cash Disbursements					
Current:					
Security of Persons and Property	128,598				128,598
Public Health Services	36,773				36,773
Leisure Time Activities	278,922				278,922
Basic Utility Services	143,828	44,500			188,328
Transportation	132,702	8,104			140,806
General Government	1,228,698				1,228,698
Capital Outlay	272,610			85,962	358,572
Debt Service:					
Principal Retirement			40,000		40,000
Interest and Fiscal Charges			40,708		40,708
<i>Total Cash Disbursements</i>	<u>2,222,131</u>	<u>52,604</u>	<u>80,708</u>	<u>85,962</u>	<u>2,441,405</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,028,781)</u>	<u>(16,883)</u>	<u>(80,519)</u>	<u>175,554</u>	<u>(950,629)</u>
Other Financing Receipts (Disbursements)					
Transfers In		20,000	80,708		100,708
Transfers Out				(100,708)	(100,708)
Other Financing Sources	3,066				3,066
<i>Total Other Financing Receipts (Disbursements)</i>	<u>3,066</u>	<u>20,000</u>	<u>80,708</u>	<u>(100,708)</u>	<u>3,066</u>
<i>Net Change in Fund Cash Balances</i>	<u>(1,025,715)</u>	<u>3,117</u>	<u>189</u>	<u>74,846</u>	<u>(947,563)</u>
<i>Fund Cash Balances, January 1</i>	<u>1,620,803</u>	<u>121,950</u>	<u>4,042</u>	<u>310,985</u>	<u>2,057,780</u>
Fund Cash Balances, December 31					
Restricted		125,067	4,231	385,831	515,129
Unassigned (Deficit)	595,088				595,088
<i>Fund Cash Balances, December 31</i>	<u>\$595,088</u>	<u>\$125,067</u>	<u>\$4,231</u>	<u>\$385,831</u>	<u>\$1,110,217</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, 2012

	<u>Agency</u>
Non-Operating Receipts	
Other Non-Operating Cash Receipts	\$550
<i>Total Non-Operating Receipts</i>	<u>550</u>
Non-Operating Cash Disbursements	
Other Non-Operating Cash Disbursements	<u>550</u>
<i>Total Non-Operating Disbursements</i>	550
<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, 2011

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$279,763			\$276,356	\$556,119
Municipal Income Tax	839,556				839,556
Intergovernmental	416,720	\$11,989			428,709
Charges for Services	3,385	26,004			29,389
Fines, Licenses and Permits	640				640
Earnings on Investments	1,226	26			1,252
Miscellaneous	18,945				18,945
<i>Total Cash Receipts</i>	<u>1,560,235</u>	<u>38,019</u>		<u>276,356</u>	<u>1,874,610</u>
Cash Disbursements					
Current:					
Security of Persons and Property	95,792				95,792
Public Health Services	37,968				37,968
Leisure Time Activities	214,808				214,808
Basic Utility Services	140,422	60,131			200,553
Transportation	128,323	7,543			135,866
General Government	1,204,876				1,204,876
Capital Outlay	280,460			17,781	298,241
Debt Service:					
Principal Retirement			\$40,000		40,000
Interest and Fiscal Charges			42,868		42,868
<i>Total Cash Disbursements</i>	<u>2,102,649</u>	<u>67,674</u>	<u>82,868</u>	<u>17,781</u>	<u>2,270,972</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(542,414)</u>	<u>(29,655)</u>	<u>(82,868)</u>	<u>258,575</u>	<u>(396,362)</u>
Other Financing Receipts (Disbursements)					
Transfers In		60,000	82,868		142,868
Transfers Out	(40,000)			(102,868)	(142,868)
Other Financing Sources - Reimbursement	28,073			22,328	50,401
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(11,927)</u>	<u>60,000</u>	<u>82,868</u>	<u>(80,540)</u>	<u>50,401</u>
<i>Net Change in Fund Cash Balances</i>	<u>(554,341)</u>	<u>30,345</u>	<u>0</u>	<u>178,035</u>	<u>(345,961)</u>
<i>Fund Cash Balances, January 1</i>	<u>2,175,144</u>	<u>91,605</u>	<u>4,042</u>	<u>132,950</u>	<u>2,403,741</u>
Fund Cash Balances, December 31					
Restricted		121,950	4,042	310,985	436,977
Unassigned (Deficit)	1,620,803				1,620,803
<i>Fund Cash Balances, December 31</i>	<u>\$1,620,803</u>	<u>\$121,950</u>	<u>\$4,042</u>	<u>\$310,985</u>	<u>\$2,057,780</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, 2011

	<u>Agency</u>
Non-Operating Receipts	
Other Non-Operating Cash Receipts	\$700
<i>Total Non-Operating Receipts</i>	<u>700</u>
Non-Operating Cash Disbursements	
Other Non-Operating Cash Disbursements	<u>700</u>
<i>Total Non-Operating Disbursements</i>	700
<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**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 refuse, 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 this entity. This organization is:

Public Entity Pool of Ohio:

The Public Entity Pool of Ohio is a risk-sharing pool available to Ohio local governments. 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. Note 8 to the financial statements describes these assets.

B. Accounting Basis

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

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

C. 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, 2012 AND 2011
(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 Funds

These funds account 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 Funds:

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 funds:

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

8. Fiduciary Funds

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for fines and costs collected and distributed to the 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. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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 also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

At December 31, 2011, 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, 2012 AND 2011
(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

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

	2012	2011
Demand deposits	\$1,110,217	\$2,057,780

Deposits: Deposits are or collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,600,000	\$1,196,416	(\$403,584)
Special Revenue	99,000	55,721	(43,279)
Debt Service	80,000	80,897	897
Capital Projects	277,000	261,516	(15,484)
Total	\$2,056,000	\$1,594,550	(\$461,450)

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity (Continued)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,226,751	\$2,222,131	\$1,004,620
Special Revenue	220,949	52,604	168,345
Debt Service	145,475	80,708	64,767
Capital Projects	520,603	186,670	333,933
Total	<u>\$4,113,778</u>	<u>\$2,542,113</u>	<u>\$1,571,665</u>

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,200,000	\$1,588,308	(\$611,692)
Special Revenue	108,000	98,018	(9,982)
Debt Service	82,868	82,868	0
Capital Projects	350,000	298,684	(51,316)
Total	<u>\$2,740,868</u>	<u>\$2,067,878</u>	<u>(\$672,990)</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,381,092	\$2,142,649	\$2,238,443
Special Revenue	199,605	67,674	131,931
Debt Service	86,909	82,868	4,041
Capital Projects	477,001	120,649	356,352
Total	<u>\$5,144,607</u>	<u>\$2,413,840</u>	<u>\$2,730,767</u>

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.

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

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

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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, 2012 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$740,000	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:

Year ending December 31:	Sanitary Sewer System Bonds
2013	\$78,547
2014	76,388
2015	79,227
2016	76,798
2017	74,367
2018-2022	359,687
2023-2027	318,312
Total	\$1,063,326

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 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, 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, 2012.

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. Risk Pool Membership

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

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

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 (the latest information available):

	<u>2011</u>	<u>2010</u>
Assets	\$33,362,404	\$34,952,010
Liabilities	(14,187,273)	(14,320,812)
Net Assets	<u>\$19,175,131</u>	<u>\$20,631,198</u>

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Government's share of these unpaid claims collectible in future years is approximately \$39,000.

VILLAGE OF STRATTON
JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

8. Risk Pool Membership (Continued)

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

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$44,045	\$42,721

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
PO 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, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated June 20, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits. We also noted, during 2011, that the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 2012-01.

Entity's Response to Findings

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

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 20, 2013

**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-01

Noncompliance Citation/Material Weakness

Village Debt Ordinance 2008-002 Section (6)(b) requires bonded debt be paid from a debt service fund. One bonded debt payment during 2011 was made from the Permanent Improvement Fund instead of the Debt Service Fund. An audit adjustment was necessary to properly reflect debt payments. The Village has agreed to the adjustment, which has been posted to the Village accounting records and is reflected in the accompanying financial statements.

Fund	Account Type	Adjustment Amount	Description
Permanent Improvement/Debt Service	Principal/Interest	\$61,434	To adjust expense for principal and interest that should have been paid from the Debt Service Fund

Failure to consistently code and classify disbursements accounts increases the possibility that the Village will not be able to identify, assemble, analyze, classify, record and report its transactions correctly or to document compliance with finance-related legal and contractual requirements. The Clerk 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 Village's resolution and to a chart of accounts to help ensure that financial activity of the Village is accurately recorded and reported

Officials Response:

A clerical error was made in posting a debt payment. I am aware it happened and the mistake will not be made again. The mistake has been corrected.

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**VILLAGE OF STRATTON
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Revised Code Section 5705.41(D)	No	Cited in the management letter
2010-002	Ohio Revised Code Section 5705.41 (B)	Yes	
2010-003	Posting appropriations and estimated resources to the ledgers	No	Cited in the management letter

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Dave Yost • Auditor of State

VILLAGE OF STRATTON

JEFFERSON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 8, 2013**