



**Mary Taylor, CPA**  
Auditor of State



**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

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# Mary Taylor, CPA

Auditor of State

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

To the Village Council:

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 23, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of Village of Stratton, Jefferson County, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Stratton, Jefferson County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid, with the first letters of "Mary" and "Taylor" being capitalized and prominent.

**Mary Taylor, CPA**  
Auditor of State

August 23, 2007

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Governmental Fund Types</b>			<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$426,340		\$304,964	\$731,304
Intergovernmental	548,459	\$8,882	20,902	578,243
Charges for Services	3,312	13,328		16,640
Fines, Licenses and Permits	1,125			1,125
Earnings on Investments	5,254			5,254
Miscellaneous	7,065			7,065
<b>Total Cash Receipts</b>	<b>991,555</b>	<b>22,210</b>	<b>325,866</b>	<b>1,339,631</b>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	61,028			61,028
Public Health Services	40,000			40,000
Leisure Time Activities	91,896			91,896
Basic Utility Service	73,900	28,142		102,042
Transportation	81,192	17,677		98,869
General Government	727,440			727,440
Debt Service:				
Redemption of Principal	139,593		180,000	319,593
Interest and Fiscal Charges	21,046		4,404	25,450
Capital Outlay			170,394	170,394
<b>Total Cash Disbursements</b>	<b>1,236,095</b>	<b>45,819</b>	<b>354,798</b>	<b>1,636,712</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(244,540)</b>	<b>(23,609)</b>	<b>(28,932)</b>	<b>(297,081)</b>
<b>Other Financing Receipts / (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Sale of Notes	180,000		200,000	380,000
Transfers-In	22,399	12,544		34,943
Transfers-Out	(12,544)		(22,399)	(34,943)
Other Financing Sources	5,452			5,452
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>195,307</b>	<b>12,544</b>	<b>177,601</b>	<b>385,452</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(49,233)</b>	<b>(11,065)</b>	<b>148,669</b>	<b>88,371</b>
<b>Fund Cash Balances, January 1</b>	<b>(22,238)</b>	<b>26,185</b>	<b>1,497</b>	<b>5,444</b>
<b>Fund Cash Balances, December 31</b>	<b>(\$71,471)</b>	<b>\$15,120</b>	<b>\$150,166</b>	<b>\$93,815</b>

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

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Agency</u>
<b>Non-Operating Cash Receipts:</b>	
Other Non-Operating Cash Receipts	<u>\$1,185</u>
Total Non-Operating Cash Receipts	<u>1,185</u>
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Cash Disbursements	<u>1,185</u>
Total Non-Operating Cash Disbursements	<u>\$1,185</u>
Fund Cash Balances, January 1	<u>                    </u>
<b>Fund Cash Balances, December 31</b>	<u><u>                    </u></u>

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

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Governmental Fund Types</b>			<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$425,581			\$425,581
Intergovernmental	557,764	\$9,955		567,719
Charges for Services	11,315	14,612		25,927
Fines, Licenses and Permits	710			710
Earnings on Investments	3,608			3,608
Miscellaneous	5,180			5,180
Total Cash Receipts	1,004,158	24,567		1,028,725
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	78,327			78,327
Public Health Services	40,000			40,000
Leisure Time Activities	103,594			103,594
Basic Utility Service	75,545	44,629		120,174
Transportation	83,484	11,519		95,003
General Government	667,720			667,720
Debt Service:				
Redemption of Principal	135,264			135,264
Interest and Fiscal Charges	25,276			25,276
Capital Outlay	41,215			41,215
Total Cash Disbursements	1,250,425	56,148		1,306,573
Total Receipts Over/(Under) Disbursements	(246,267)	(31,581)		(277,848)
<b>Other Financing Receipts / (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Transfers-In		30,000		30,000
Transfers-Out	(30,000)			(30,000)
Other Financing Sources	6,471			6,471
Total Other Financing Receipts / (Disbursements)	(23,529)	30,000		6,471
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(269,796)	(1,581)		(271,377)
Fund Cash Balances, January 1	247,558	27,766	1,497	276,821
<b>Fund Cash Balances, December 31</b>	<b>(\$22,238)</b>	<b>\$26,185</b>	<b>\$1,497</b>	<b>\$5,444</b>

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

VILLAGE OF STRATTON  
JEFFERSON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Agency</u>
<b>Non-Operating Cash Receipts:</b>	
Other Non-Operating Cash Receipts	<u>\$600</u>
Total Non-Operating Cash Receipts	<u>600</u>
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Cash Disbursements	<u>600</u>
Total Non-Operating Cash Disbursements	<u>\$600</u>
Fund Cash Balances, January 1	<u></u>
<b>Fund Cash Balances, December 31</b>	<u><u></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, 2006 AND 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

The Village participates in Public Entities Pool of Ohio (PEP) public entity risk pool. Note 7 to the financial statements provides additional information for these entities.

This organization is:

*Public Entities Pool of Ohio (PEP):*

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

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

**B. Accounting Basis**

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

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

**C. Fund Accounting**

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

**1. General Fund**

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

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

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

**2. Special Revenue Funds**

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

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

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

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

**3. Capital Project Funds**

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

FEMA Fund - This fund accounts for grant monies.

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

**4. Fiduciary Funds (Agency Fund)**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for fines and costs collected and distributed to the State and to the Village.

**D. Budgetary Process**

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

**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, 2006 AND 2005  
(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 2006 and 2005 budgetary activity appears in Note 3.

**E. Property, Plant, and Equipment**

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

**F. Accumulated Leave**

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

**2. EQUITY IN POOLED CASH**

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

	<u>2006</u>	<u>2005</u>
Demand deposits	<u>\$93,815</u>	<u>\$5,444</u>

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$975,000	\$1,199,406	\$224,406
Special Revenue	23,750	34,754	11,004
Capital Projects	312,468	525,866	213,398
Total	<u>\$1,311,218</u>	<u>\$1,760,026</u>	<u>\$448,808</u>

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. BUDGETARY ACTIVITY - (Continued)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$845,891	\$1,248,639	(\$ 402,748)
Special Revenue	62,479	45,819	16,660
Capital Projects	408,292	377,197	31,095
Total	<u>\$1,316,662</u>	<u>\$1,671,655</u>	<u>(\$354,993)</u>

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$975,000	\$1,010,629	\$35,629
Special Revenue	31,000	54,567	23,567
Capital Projects	0	0	0
Total	<u>\$1,006,000</u>	<u>\$1,065,196</u>	<u>\$59,196</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,487,433	\$1,280,425	\$207,008
Special Revenue	61,766	56,148	5,618
Capital Projects	3,622	0	3,622
Total	<u>\$1,552,821</u>	<u>\$1,336,573</u>	<u>\$216,248</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund and FEMA Fund by \$402,748 and \$20,902, respectively, for the year ended December 31, 2006. For the year ended December 31, 2005, budgetary expenditures exceeded the appropriation authority in the Water Fund and Sewer Fund by \$14,117 and \$8,932, respectively. Also contrary to Ohio law, at December 31, 2006, the General Fund had a cash deficit balance of \$ 71,471 and at December 31, 2005 the General Fund a cash deficit balance of \$22,238. Lastly, contrary to Ohio law, appropriations exceeded estimated resources in the Water Fund by \$12,544 and \$3,000 for the years ended December 31, 2006 and 2005, respectively.

**4. PROPERTY TAX**

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

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**4. PROPERTY TAX**

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire Truck Loan	\$113,784	3.34%
Operating Note	280,998	4.35%
Tax Anticipation Note	200,000	4.71%
Total	<u>\$594,782</u>	

The fire truck loan is for the purchase of a new fire truck for Village fire protection. The fire truck collateralizes the loan.

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

The tax anticipation note is for permanent improvements of the water, sewer, and other facilities of the Village. The Village has passed a tax levy, which will provide funding for the repayment of this loan.

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

Year ending December 31:	Fire Truck Loan	Operating Note	Tax Anticipation Note
2007	\$59,529	\$101,011	\$55,443
2008	59,529	101,011	55,443
2009		101,011	55,443
2010			54,805
Total	<u>\$119,058</u>	<u>\$303,033</u>	<u>\$221,134</u>

**6. 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.

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**6. RETIREMENT SYSTEMS - (Continued)**

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages, respectively. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**7. RISK MANAGEMENT**

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

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

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

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year.

Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

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

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

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

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

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

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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$68,638. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

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

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

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

<u><b>Contributions to PEP</b></u>	
2004	\$33,682
2005	\$33,543
2006	\$34,319

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



# Mary Taylor, CPA

## Auditor of State

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

Village of Stratton  
Jefferson County  
136 Second Avenue  
Stratton, Ohio 43961

To the Village Council:

We have audited the financial statements of the Village of Stratton, Jefferson County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 23, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control over Financial Reporting**

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-004.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We noted certain matters that we reported to the Village's management in a separate letter dated August 23, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as items, 2006-001 through 2006-004.

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

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



**Mary Taylor, CPA**  
Auditor of State

August 23, 2007

**VILLAGE OF STRATTON  
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Noncompliance Citation/Significant Deficiency**

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

As of December 31, 2006, the General Fund had a deficit cash balance of \$71,471 and as of December 31, 2005 the General Fund had a deficit cash balance of \$22,238.

The deficit balances indicate that money from another fund(s) was used to pay the obligations of the aforementioned fund.

As the General Fund had a deficit balance at December 31, 2005 and 2006, the Village officials should review programs and services offered and determine if there are opportunities to either increase revenues or to decrease expenses, and reduce the deficit balance.

**Officials' Response**

As per your finding, we are in the process of correcting the fund deficit and we are working on ways to decrease the expenditures in those fund.

**FINDING NUMBER 2006-002**

**Noncompliance Citation/Significant Deficiency**

**Ohio Revised Code Section 5705.39** prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission in the Water Fund by \$12,543 during 2006 and by \$3,000 in 2005.

The Village should base annual appropriations on available resources as certified by the budget commission on the Amended Official Certificate of Estimated Resources. If necessary, the Council should amend appropriations or obtain an amended certificate should be obtained.

**Officials' Response**

As per your findings, I will notify the County Auditor and Council when a need arises to amend the Certificate of Estimated Resources.

**FINDING NUMBER 2006-003**

**Noncompliance Citation/Significant Deficiency**

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

The following funds had expenditures, which exceeded appropriations in 2006:

<b>Fund</b>	<b>Budgetary Expenditures</b>	<b>Appropriation Authority</b>	<b>Variance</b>
General Fund	\$1,248,639	\$845,891	(\$402,748)
FEMA Fund	\$24,524	\$3,622	(\$20,902)

The following funds had expenditures, which exceeded appropriations in 2005:

<b>Fund</b>	<b>Budgetary Expenditures</b>	<b>Appropriation Authority</b>	<b>Variance</b>
Water Fund	\$24,857	\$10,740	(\$14,117)
Sewer Fund	\$19,772	\$10,840	(\$8,932)

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

**Officials' Response**

As per your findings, I will notify the Council and the County Auditor when a need arises to amend the appropriations.

**FINDING NUMBER 2006-004**

**Noncompliance Citation/Significant Deficiency**

**Ohio Revised Code Section 133.32** states that proceeds from the sale of securities in an amount equal to the principal amount of the security shall be credited to the fund for the purpose of which the security is issued and shall be deemed appropriated for and used for the purpose set forth in the legislation.

Additionally, the Ohio Administrative Code Section 117-2-02(A) states that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, clarify, record and report its transactions, maintain accountability for related assets, document with finance-related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code Section 117-2-03.

Proceeds of debt, issued for capital improvements in the amount of \$200,000, were posted to the General Fund instead of the Permanent Improvement Fund as required by statute. Adjustments have been made and are reflected in the accompanying financial statements.

The Village Clerk should properly code and classify all debt proceeds to the fund for the purpose of which the security is issued, in order to maintain accountability of Village revenue.

**Officials' Response**

As per your findings, there was miscommunication between myself and the Solicitor during the process of the loan. I will not deposit monies into the incorrect fund again.

VILLAGE OF STRATTON  
JEFFERSON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	ORC 5705.41(B)	No	Cited as Finding number 2006-003





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF STRATTON**

**JEFFERSON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Bablitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 13, 2007**