



Dave Yost • Auditor of State

VILLAGE OF BUTLER
RICHLAND COUNTY

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Dave Yost • Auditor of State

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

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 Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Dave Yost
Auditor of State

September 28, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

To the Village Council:

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

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position or cash flows, where applicable 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 Butler, Richland County, Ohio, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Dave Yost
Auditor of State

September 28, 2011

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|-------------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Local Taxes | \$26,045 | \$18,160 | \$44,205 |
| Municipal Income Tax | 92,584 | 23,146 | 115,730 |
| Intergovernmental | 47,030 | 67,781 | 114,811 |
| Fines, Licenses and Permits | 5,356 | | 5,356 |
| Earnings on Investments | 109 | 1 | 110 |
| Miscellaneous | 7,073 | | 7,073 |
| | <u>178,197</u> | <u>109,088</u> | <u>287,285</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 71,413 | | 71,413 |
| Public Health Services | | 1,200 | 1,200 |
| Leisure Time Activities | 1,336 | | 1,336 |
| Community Environment | 712 | | 712 |
| Transportation | | 95,527 | 95,527 |
| General Government | 109,870 | | 109,870 |
| | <u>183,331</u> | <u>96,727</u> | <u>280,058</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | <u>(5,134)</u> | <u>12,361</u> | <u>7,227</u> |
| Fund Cash Balances, January 1 | <u>61,406</u> | <u>60,901</u> | <u>122,307</u> |
| Fund Cash Balances, December 31 | <u><u>\$56,272</u></u> | <u><u>\$73,262</u></u> | <u><u>\$129,534</u></u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Proprietary Fund Types</u> | <u>Fiduciary Fund Types</u> | <u>Totals (Memorandum Only)</u> |
|---|-----------------------------------|---------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$237,050 | | \$237,050 |
| Fines, Licenses and Permits | | \$8,571 | 8,571 |
| Total Operating Cash Receipts | <u>237,050</u> | <u>8,571</u> | <u>245,621</u> |
| Operating Cash Disbursements: | | | |
| General Government | | 7,671 | 7,671 |
| Personal Services | 77,224 | | 77,224 |
| Travel Transportation | 61 | | 61 |
| Contractual Services | 75,347 | | 75,347 |
| Supplies and Materials | 23,726 | | 23,726 |
| Total Operating Cash Disbursements | <u>176,358</u> | <u>7,671</u> | <u>184,029</u> |
| Operating Income | <u>60,692</u> | <u>900</u> | <u>61,592</u> |
| Non-Operating Cash Receipts: | | | |
| Intergovernmental | 206,679 | | 206,679 |
| Earnings on Investments | 200 | | 200 |
| Loan Proceeds | 514,880 | | 514,880 |
| Total Non-Operating Cash Receipts | <u>721,759</u> | <u>0</u> | <u>721,759</u> |
| Non-Operating Cash Disbursements: | | | |
| Capital Outlay | 722,403 | | 722,403 |
| Redemption of Principal | 13,353 | | 13,353 |
| Interest and Other Fiscal Charges | 678 | | 678 |
| Total Non-Operating Cash Disbursements | <u>736,434</u> | <u>0</u> | <u>736,434</u> |
| Excess of Cash Receipts Over Cash Disbursements Before Interfund Transfers | 46,017 | 900 | 46,917 |
| Transfers-In | 15,333 | | 15,333 |
| Transfers-Out | (15,333) | | (15,333) |
| Net Cash Receipts Over Cash Disbursements | 46,017 | 900 | 46,917 |
| Fund Cash Balances, January 1 | <u>139,206</u> | <u>510</u> | <u>139,716</u> |
| Fund Cash Balances, December 31 | <u>\$185,223</u> | <u>\$1,410</u> | <u>\$186,633</u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Local Taxes | \$25,795 | | \$25,795 |
| Municipal Income Tax | 98,266 | \$18,359 | 116,625 |
| Intergovernmental | 43,327 | 68,323 | 111,650 |
| Fines, Licenses and Permits | 6,774 | | 6,774 |
| Earnings on Investments | 1,698 | 3 | 1,701 |
| Miscellaneous | 5,143 | 2,400 | 7,543 |
| | <u>181,003</u> | <u>89,085</u> | <u>270,088</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 77,141 | | 77,141 |
| Public Health Services | | 80 | 80 |
| Leisure Time Activities | 2,382 | | 2,382 |
| Community Environment | 31 | | 31 |
| Transportation | | 88,136 | 88,136 |
| General Government | 117,483 | | 117,483 |
| | <u>197,037</u> | <u>88,216</u> | <u>285,253</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | <u>(16,034)</u> | <u>869</u> | <u>(15,165)</u> |
| Other Financing Receipts / (Disbursements): | | | |
| Transfers-In | | 11,000 | 11,000 |
| Transfers-Out | (11,000) | | (11,000) |
| | <u>(11,000)</u> | <u>11,000</u> | <u>0</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (27,034) | 11,869 | (15,165) |
| Fund Cash Balances, January 1 | 88,440 | 49,032 | 137,472 |
| Fund Cash Balances, December 31 | <u>\$61,406</u> | <u>\$60,901</u> | <u>\$122,307</u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | <u>Proprietary Fund Types</u> | <u>Fiduciary Fund Types</u> | <u>Totals (Memorandum Only)</u> |
|---|-----------------------------------|---------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$226,231 | | \$226,231 |
| Fines, Licenses and Permits | | \$10,095 | 10,095 |
| Total Operating Cash Receipts | 226,231 | 10,095 | 236,326 |
| Operating Cash Disbursements: | | | |
| General Government | | 9,869 | 9,869 |
| Personal Services | 81,373 | | 81,373 |
| Travel Transportation | 188 | | 188 |
| Contractual Services | 69,535 | | 69,535 |
| Supplies and Materials | 28,832 | | 28,832 |
| Total Operating Cash Disbursements | 179,928 | 9,869 | 189,797 |
| Operating Income | 46,303 | 226 | 46,529 |
| Non-Operating Cash Receipts: | | | |
| Intergovernmental | 9,766 | | 9,766 |
| Non-Operating Cash Disbursements: | | | |
| Capital Outlay | 27,797 | | 27,797 |
| Redemption of Principal | 10,776 | | 10,776 |
| Interest and Other Fiscal Charges | 1,174 | | 1,174 |
| Total Non-Operating Cash Disbursements | 39,747 | 0 | 39,747 |
| Net Cash Receipts Over Cash Disbursements | 16,322 | 226 | 16,548 |
| Fund Cash Balances, January 1 | 122,884 | 284 | 123,168 |
| Fund Cash Balances, December 31 | \$139,206 | \$510 | \$139,716 |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Butler, Richland County, Ohio, (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 contracts with the Worthington Township to receive fire protection services.

The Village participates in the Public Entities Pool of Ohio, a risk sharing pool. Note 8 provides additional information for this entity.

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

2. Special Revenue Funds

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

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

1. **Summary of Significant Accounting Policies (Continued)**

D. **Fund Accounting (Continued)**

2. **Special Revenue Funds (continued)**

Permissive Sales Tax Fund – This fund receives county excess sales and use tax proceeds for road repair and related expenses.

3. **Enterprise Funds**

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Water Improvement Fund - This fund receives OPWC and OWDA loans and grants to construct an elevated water storage tank.

4. **Fiduciary Fund**

Fiduciary funds include agency 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 its Mayor's Court which receives money from fines and forfeitures.

E. **Budgetary Process**

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

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. **Estimated Resources**

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. 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.

G. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

| | 2010 | 2009 |
|--|-----------|-----------|
| Demand deposits | \$165,295 | \$115,721 |
| Certificates of deposit | | 36,349 |
| Other time deposits (savings and NOW accounts) | 150,872 | 109,953 |
| Total deposits | \$316,167 | \$262,023 |

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 ended December 31, 2010 and 2009 follows:

| 2010 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$108,036 | \$178,197 | \$70,161 |
| Special Revenue | 74,907 | 109,088 | 34,181 |
| Enterprise | 931,469 | 974,142 | 42,673 |
| Total | \$1,114,412 | \$1,261,427 | \$147,015 |

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. Budgetary Activity (Continued)

| 2010 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$237,124 | \$183,331 | \$53,793 |
| Special Revenue | 104,350 | 96,727 | 7,623 |
| Enterprise | 968,429 | 928,125 | 40,304 |
| Total | <u>\$1,309,903</u> | <u>\$1,208,183</u> | <u>\$101,720</u> |

| 2009 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$169,940 | \$181,003 | \$11,063 |
| Special Revenue | 78,198 | 100,085 | 21,887 |
| Enterprise | 245,084 | 235,997 | (9,087) |
| Total | <u>\$493,222</u> | <u>\$517,085</u> | <u>\$23,863</u> |

| 2009 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$230,345 | \$208,037 | \$22,308 |
| Special Revenue | 79,211 | 88,216 | (9,005) |
| Enterprise | 255,136 | 219,675 | 35,461 |
| Total | <u>\$564,692</u> | <u>\$515,928</u> | <u>\$48,764</u> |

Noncompliance:

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2010 and 2009.

Contrary to Ohio Rev. Code Section 5705.42, the Village did not initially record Ohio Public Works Commission on-behalf grants and Ohio Water Development Authority loans as a receipt and disbursement in the Village's accounting records.

Contrary to Ohio Rev. Code Section 5705.41(B), the Village had expenditures exceeding appropriations during 2010 and 2009.

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 BUTLER
RICHLAND COUNTY**

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

4. Property Tax (Continued)

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. Local Income Tax

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.

6. Debt

Debt outstanding at December 31, 2010 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|--|------------------|----------------------|
| Ohio Public Works Commission Loan - 2004 | \$21,646 | 0.00% |
| Truck Loan | 7,224 | 5.55% |
| Ohio Public Works Commission Loan - 2008 | 47,103 | 0.00% |
| OWDA Loan - Elevated Storage Tank | 514,880 | 3.86% |
| Total | <u>\$590,853</u> | |

The Ohio Public Works Commission Loan – 2004 was entered into to finance the wastewater plant repairs. This loan will be repaid in semi-annual installments of \$773, with no interest through December 2024. The loan is collateralized by the Village’s taxing authority.

The Truck Loan was entered into in September 2006 for the purpose of obtaining a truck for use in the Water/Sewer department. The loan will be repaid in monthly installments of \$822 through September 2011. The loan is collateralized by the truck.

The Ohio Public Works Commission Loan – 2008 was entered into to finance the West Street well replacement. The project was started in 2005 and completed in 2007. This loan will be repaid in semi-annual installments of \$1,308, with no interest through July 2028. The loan is collateralized by the Village’s taxing authority.

The Ohio Water Development Authority Loan was entered into to finance construction of an elevated storage tank. The project was not completed as of December 31, 2010, and therefore, no amortization schedule is available. The total amount of the project is estimated to be \$808,245. The loan will be collateralized by the Village’s taxing authority.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

6. Debt (Continued)

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

| Year ending December 31: | OPWC Loan - 2004 | Truck Loan | OPWC Loan - 2008 |
|--------------------------|---------------------|------------|---------------------|
| 2011 | \$1,546 | \$7,401 | \$2,617 |
| 2012 | 1,546 | | 2,617 |
| 2013 | 1,546 | | 2,617 |
| 2014 | 1,546 | | 2,617 |
| 2015 | 1,546 | | 2,617 |
| 2016-2020 | 7,731 | | 13,085 |
| 2021-2025 | 6,185 | | 13,085 |
| 2026-2028 | | | 7,848 |
| Total | \$21,646 | \$7,401 | \$47,103 |

7. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

8. 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 Workers' Compensation.

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

Casualty and Property Coverage

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

8. Risk Management (Continued)

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008 (the latest information available):

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

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$6,491.

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.

Contributions to PEP

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|-------------|
| | \$6,821 | \$6,905 | \$6,831 |

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

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

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

To the Village Council:

We have audited the financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated September 28, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001, 2010-004 and 2010-005 described in the accompanying schedule of findings to be material weaknesses.

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. We consider finding 2010-006 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 28, 2011.

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 management, Village Council, and others within the Village. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

September 28, 2011

VILLAGE OF BUTLER
RICHLAND COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009

FINDING NUMBER 2010-001

Material Weakness/Noncompliance Finding

Ohio Rev. Code Section 5705.42 requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2010, the Ohio Water Development Authority (OWDA) expended \$514,880, and in 2010 and 2009, the Ohio Public Works Commission (OPWC) expended \$206,679 and \$9,766, respectively, for construction of an elevated water storage tank on behalf of the Village. Under the terms of this agreement, OWDA and OPWC made project payments directly to the vendor/contractor(s) on the Village's behalf. None of the OWDA or OPWC on-behalf moneys in 2010 or 2009 were recognized as receipts and disbursements in the Village's accounting records, thus understating their receipts and disbursements. Adjustments were made to the financial statements to recognize these receipts and disbursements.

Any payments made on behalf of the Village by another party should be recorded by the Village as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. Additionally, since these grants are deemed appropriated pursuant to Ohio Rev. Code Section 5705.42, the Village should record the appropriations in their accounting records and should request an amended certificate of estimated resources to reflect the additional receipts.

Officials' Response: The assistant fiscal officer thought she only had to memo post in the receipt book which is all documented, but did not realize she had to put it through the system, because she thought it would increase the Village's revenue too much.

FINDING NUMBER 2010-002

Noncompliance Finding

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

FINDING NUMBER 2010-002 (continued)

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

100 percent of expenditures tested were not certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response: The Village is setting up vendors now to key into the system and get approval from council for the beginning of the year.

FINDING NUMBER 2010-003

Noncompliance Finding

Ohio Rev. Code Section 5705.41(B) requires no subdivision or taxing unit is to expend money unless it has been appropriated.

After the effects of adjustments made to the financial statements during our audit, December 31, 2010 and 2009, fund level expenditures exceeded appropriations as follows:

| <u>2010</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Difference</u> |
|--|------------------------------|----------------------------|--------------------------|
| <u>Special Revenue Funds:</u> | | | |
| Street Construction, Maintenance and Repair Fund | \$ 51,750 | \$ 55,778 | (\$4,028) |
| <u>Enterprise Funds:</u> | | | |
| Water Fund | 83,970 | 109,231 | (25,261) |
| | | | |
| <u>2009</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Difference</u> |
| <u>Special Revenue Funds:</u> | | | |
| Street Construction, Maintenance and Repair Fund | \$47,000 | \$51,068 | (\$4,068) |
| <u>Enterprise Fund:</u> | | | |
| Sanitary Sewer Fund | 101,150 | 112,254 | (11,104) |

The Village should frequently compare actual expenditures to appropriations at the fund level and at the object level (legal level of control) to avoid overspending.

Officials' Response: A report is presented in front of council monthly of totals of revenue and expenditures which the assistant fiscal officer will make them aware to review closely.

FINDING NUMBER 2010-004

Material Weakness

Mayor's Court Activity

The Village does not record the total activity for the Mayor's Court on the Village's books. The Mayor's Court records are kept separate from the Village's books, and each month a check is written to the Village for its portion of the fines and fees. Also, the fines and costs were not always allocated to the various accounts in the General Fund as required. This practice does not report the Village's entire activity on the financial statements, which could result in the Mayor's Court activity being overlooked and not being reviewed or monitored by Council.

The fines and costs should be originally recorded in an Agency Fund, and then only the portion of fines and costs due to the Village should be recorded as a receipt in the General Fund to clearly account for the portion of court receipts that legally belong to the Village. This amount paid into the General Fund should be allocated among the various Mayor's Court receipt accounts as required to ensure the money is used only for the intended purpose. The fines and costs due to the state should also be paid from this Agency Fund. This will allow for the entire activity of the Village to be included on the Village's books, and for Council to review the activity, and will help ensure more accurate financial statements.

FINDING NUMBER 2010-004 (continued)

For 2010, \$3,460 of receipts and \$7,671 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court activity. For 2009, \$10,095 of receipts and \$9,869 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court activity.

Officials' Response: Last audit the Village asked if it would be better to not have a mayor's court checking account and run everything through the general checking account. We were told that was not necessary. The Village will figure out the best way to run the mayor's court activity through the accounting system.

FINDING NUMBER 2010-005

Material Weakness

Transaction Posting

Our receipt and disbursement testing revealed the Village recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2010 \$5,111 of the Village's portion of fines collected from the Mayor's Court was incorrectly posted to the Mayor's Court Agency Fund instead of the General Fund's Fines, Licenses and Permits. In 2009, \$6,694 of the Village's portion of fines collected from the Mayor's Court was incorrectly posted to Transfers In in the General Fund instead of Fines, Licenses and Permits. In addition, in 2010 and 2009, \$65 and \$90, respectively, of Safety Town receipts were incorrectly posted to the General Fund's Miscellaneous Revenue instead of the General Fund's Fines, Licenses and Permits. The \$5,111 and \$6,694 were adjusted to the financial statements and Village's accounting records. The \$65 and \$90 were reported to management as unadjusted items.
- In 2010 and 2009, \$12,041 and \$3,301, respectively, of CAT tax, public utility property tax reimbursements, and homestead and rollback receipts were incorrectly posted to the General Fund's Tax Receipts instead of Intergovernmental Receipts. In addition, in 2010, \$18,160 of property taxes was incorrectly posted to the Street Construction, Maintenance and Repair Fund's Miscellaneous Receipts instead of Property Tax Receipts. These amounts were adjusted to the financial statements.
- In 2010 and 2009, \$1,372 and \$527, respectively, of Auditor and Treasurer fees associated with the collection of property taxes were not posted to the Village's ledgers. These amounts were reported to management as unadjusted items.
- In 2009, \$2,250 of miscellaneous receipts were incorrectly posted to the Permissive Sales Tax Fund's Intergovernmental Receipts instead of Miscellaneous Receipts. This amount was adjusted to the financial statements.
- In 2010 and 2009, \$69,438 and \$51,534, respectively of income tax receipts were incorrectly posted to the General Fund's Transfer In instead of Income Tax Receipts. In addition, in 2010 and 2009, \$23,246 and \$18,359, respectively, of income tax receipts were incorrectly posted to the Street Construction, Maintenance and Repair Fund's Miscellaneous Receipts instead of Income Tax Receipts. These amounts were adjusted to the financial statements.
- In 2010, \$15,333 of transfers out were incorrectly posted to the Water Fund's Charges for Services Receipts as a reduction of receipt instead of Transfers Out. In 2009, \$500 of disbursements were incorrectly posted to the General Fund's Transfers Out instead of General Government disbursements. In addition, in 2009, \$11,000 of transfers in from the General Fund was incorrectly posted to the Street Construction, Maintenance and Repair Fund's Transportation disbursement line item as a reduction of expense instead of as a Transfer In. These amounts were adjusted to the financial statements.

FINDING NUMBER 2010-005 (continued)

- In 2010 and 2009, \$14,031 and \$11,950, respectively, of principal and interest expenditures were incorrectly posted to the Water and Sewer Fund's Contract Services and Capital Outlay disbursement line items rather than Debt Service Principal and Interest disbursement line items. These amounts were adjusted to the financial statements.

The Village should review the Village Officer's Handbook and exercise due care when posting transactions to help ensure receipts and expenditures are posted to the correct fund and account. Additionally, the Village Council should review monthly receipt and expenditure activity reports to help ensure transactions are properly accounted for and classified. This will help more accurately reflect the Village's financial activity and will aid in more accurate financial reporting.

Officials' Response: The Village is going to make new line-items for each specific revenue and expenditure to help ensure items are properly classified.

FINDING NUMBER 2010-006

Significant Deficiency

Budgetary Process

Our testing revealed several weaknesses with respect to the Village's budgetary processes. Specific weaknesses included, but were not limited to the following:

- The estimated resources from the Official Certificate of Estimated Resources were not always entered correctly on the Revenue History Report in the accounting system. In 2010, variances ranged from \$5,065 to \$23,406, and in 2009, variances ranged from (\$1,600) to (\$53,283).
- The appropriations entered on the Budget History Report did not agree to the original appropriation ordinance plus amendments to appropriations. In 2010, variances ranged from (\$200) to (\$15,325), and in 2009, variances ranged from (\$100) to \$30,000.

Village council relies on the reports generated by the computer systems and it is important the data in the system is accurate. Without accurate information overspending is possible, which could lead to fund balance deficits.

To enhance the Village's controls over budgetary processes and to help ensure the Village's budgetary financial statement note is accurate, we recommend the following:

- The estimated resources from the Official Certificate of Estimated Resources should be entered into the accounting system as soon as the certificate is received from the County Auditor. This will help ensure the system accurately reflects budgeted receipts versus actual receipts.
- The original appropriation ordinance and all amendments should be entered into the accounting system as soon as they are approved by Council. This will help ensure only Council approved appropriations and amendments are used to produce reports comparing budgeted appropriations versus actual disbursements.

Officials' Response: The assistant finance directors made changes to the budgetary system for the estimated resources and will make arrangements with the computer programmer to see why it did not show up correctly in the system.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2008-001 | Ohio Rev. Code Section 5705.41(D) - The Village did not certify funds prior to incurring the obligation. | No | Not Corrected. See Finding Number 2010-002. |
| 2008-002 | Ohio Rev. Code Section 5705.41(B) – The Village had various funds with expenditures exceeding appropriations. | No | Not Corrected. See Finding Number 2010-003. |
| 2008-003 | Ohio Rev. Code Section 117.38 – The Village’s annual reports filed with the AOS contained numerous errors. | Yes | Finding No Longer Valid. |
| 2008-004 | Ohio Rev. Code Section 5705.42 – The Village did not record OPWC monies paid on the Village’s behalf. | No | Not Corrected. See Finding Number 2010-001. |
| 2008-005 | Mayor’s Court Procedures (Material Weakness) – The Village does not record the total activity for the Mayor’s Court on the Village’s books. | No | Not Corrected. See Finding Number 2010-004. |
| 2008-006 | Transaction Posting (Material Weakness) – Various receipts were recorded incorrectly. | No | Not Corrected. See Finding Number 2010-005. |
| 2008-007 | Accounting System (Material Weakness) – The Village had various errors noted with its accounting system. | Yes | Finding No Longer Valid. |
| 2008-008 | Budgetary Issues (Significant Deficiency) – The Village’s approved budgeted receipts and disbursements did not agree to what was posted to the system. | No | Not Corrected. See Finding Number 2010-006. |



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VILLAGE OF BUTLER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 13, 2011