



Dave Yost • Auditor of State

VILLAGE OF BOTKINS
SHELBY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2012	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2011	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2011	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	21

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Botkins
Shelby County
210 South Mill Street
Botkins, Ohio 45306

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Village of Botkins, Shelby 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.

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.

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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 or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Botkins, Shelby 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 9 to the financial statements, during 2011 the Village of Botkins 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 April 26, 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

April 26, 2013

**VILLAGE OF BOTKING
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$37,396			\$37,396
Municipal Income Tax	392,364		\$211,273	603,637
Intergovernmental	48,375	\$94,417		142,792
Special Assessments	207			207
Charges for Services	32,167			32,167
Fines, Licenses and Permits	13,260			13,260
Earnings on Investments	6,440	212		6,652
Miscellaneous	85,692	364		86,056
Total Cash Receipts	<u>615,901</u>	<u>94,993</u>	<u>211,273</u>	<u>922,167</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	221,462			221,462
Public Health Services	4,961			4,961
Leisure Time Activities	42,803			42,803
Transportation		128,408		128,408
General Government	281,759			281,759
Capital Outlay			432,836	432,836
Debt Service:				
Principal Retirement			23,061	23,061
Interest and Fiscal Charges			2,130	2,130
Total Cash Disbursements	<u>550,985</u>	<u>128,408</u>	<u>458,027</u>	<u>1,137,420</u>
Excess of Receipts Over (Under) Disbursements	<u>64,916</u>	<u>(33,415)</u>	<u>(246,754)</u>	<u>(215,253)</u>
Other Financing Receipts (Disbursements):				
Other Debt Proceeds			240,000	240,000
Total Other Financing Receipts (Disbursements)			<u>240,000</u>	<u>240,000</u>
Net Change in Fund Cash Balances	64,916	(33,415)	(6,754)	24,747
Fund Cash Balances, January 1	<u>287,549</u>	<u>71,864</u>	<u>412,214</u>	<u>771,627</u>
Fund Cash Balances, December 31:				
Non-spendable				
Restricted		38,449	405,460	443,909
Committed				
Assigned				
Unassigned (Deficit)	352,465			352,465
Fund Cash Balances, December 31	<u>\$352,465</u>	<u>\$38,449</u>	<u>\$405,460</u>	<u>\$796,374</u>

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

**VILLAGE OF BOTKINS
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Private Purpose Trust	(Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$561,269		\$561,269
Earnings on Investments (trust funds only)		\$140	140
Miscellaneous	2,743		2,743
Total Operating Cash Receipts	<u>564,012</u>	<u>140</u>	<u>564,152</u>
Operating Cash Disbursements:			
Personal Services	66,717		66,717
Employee Fringe Benefits	16,341		16,341
Contractual Services	73,738		73,738
Supplies and Materials	129,920	241	130,161
Total Operating Cash Disbursements	<u>286,716</u>	<u>241</u>	<u>286,957</u>
Operating Income (Loss)	<u>277,296</u>	<u>(101)</u>	<u>277,195</u>
Non-Operating Receipts (Disbursements):			
Intergovernmental			
Other Debt Proceeds	58,216		58,216
Capital Outlay	(147,565)		(147,565)
Principal Retirement	(122,691)		(122,691)
Interest and Other Fiscal Charges	(15,415)		(15,415)
Other Financing Sources			
Total Non-Operating Receipts (Disbursements)	<u>(227,455)</u>		<u>(227,455)</u>
Net Change in Fund Cash Balances	49,841	(101)	49,740
Fund Cash Balances, January 1	<u>1,180,349</u>	<u>17,637</u>	<u>1,197,986</u>
Fund Cash Balances, December 31	<u><u>\$1,230,190</u></u>	<u><u>\$17,536</u></u>	<u><u>\$1,247,726</u></u>

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

**VILLAGE OF BOTKING
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Other Local Taxes	\$36,504				\$36,504
Municipal Income Tax	359,463			\$193,557	553,020
Intergovernmental	109,503	\$85,306			194,809
Charges for Services	39,850				39,850
Fines, Licenses and Permits	10,712	85			10,797
Earnings on Investments	9,252	237			9,489
Miscellaneous	34,326	634		17,128	52,088
Total Cash Receipts	<u>599,610</u>	<u>86,262</u>		<u>210,685</u>	<u>896,557</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	209,852	61			209,913
Public Health Services	5,797				5,797
Leisure Time Activities	37,151				37,151
Community Environment	748				748
Transportation		70,008			70,008
General Government	286,538				286,538
Capital Outlay	49,889			170,812	220,701
Total Cash Disbursements	<u>589,975</u>	<u>70,069</u>		<u>170,812</u>	<u>830,856</u>
Excess of Receipts Over (Under) Disbursements	<u>9,635</u>	<u>16,193</u>		<u>39,873</u>	<u>65,701</u>
Other Financing Receipts (Disbursements):					
Transfers In	99				99
Transfers Out			(\$99)		(99)
Other Financing Uses				(9,511)	(9,511)
Total Other Financing Receipts (Disbursements)	<u>99</u>		<u>(99)</u>	<u>(9,511)</u>	<u>(9,511)</u>
Net Change in Fund Cash Balances	9,734	16,193	(99)	30,362	56,190
Fund Cash Balances, January 1	<u>277,815</u>	<u>55,671</u>	<u>99</u>	<u>381,852</u>	<u>715,437</u>
Fund Cash Balances, December 31:					
Non-spendable					
Restricted		71,864		412,214	484,078
Committed					
Assigned					
Unassigned (Deficit)	287,549				287,549
Fund Cash Balances, December 31	<u>\$287,549</u>	<u>\$71,864</u>	<u>\$0</u>	<u>\$412,214</u>	<u>\$771,627</u>

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

**VILLAGE OF BOTKINS
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Private Purpose Trust	(Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$526,933		\$526,933
Earnings on Investments (trust funds only)		\$156	156
Total Operating Cash Receipts	526,933	156	527,089
Operating Cash Disbursements:			
Personal Services	67,352		67,352
Employee Fringe Benefits	21,524		21,524
Contractual Services	88,862		88,862
Supplies and Materials	140,651	341	140,992
Total Operating Cash Disbursements	318,389	341	318,730
Operating Income (Loss)	208,544	(185)	208,359
Non-Operating Receipts (Disbursements):			
Intergovernmental	176,132		176,132
Other Debt Proceeds	948,662		948,662
Capital Outlay	(1,155,747)		(1,155,747)
Principal Retirement	(47,688)		(47,688)
Interest and Other Fiscal Charges	(16,808)		(16,808)
Other Financing Sources	2,504		2,504
Total Non-Operating Receipts (Disbursements)	(92,945)		(92,945)
Net Change in Fund Cash Balances	115,599	(185)	115,414
Fund Cash Balances, January 1	1,064,750	17,822	1,082,572
Fund Cash Balances, December 31	<u>\$1,180,349</u>	<u>\$17,637</u>	<u>\$1,197,986</u>

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

**VILLAGE OF BOTKINS
SHELBY 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 Botkins, Shelby 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, street maintenance, police services, and fire protection services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk sharing pool available to Ohio local governments. Note 8 to the financial statements provides additional information for this entity.

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

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 maintains three checking accounts, a money market savings account and certificates of deposit; all of which are valued at cost. The Village has no investments.

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 Fund:

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 BOTKINS
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Water Tower Debt Service Fund (OWDA) - This fund is responsible for paying the debt from a loan used for a water tower construction project.

4. 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:

Capital Improvement Fund – This fund receives a share of income tax receipts to pay for various needed improvements and new equipment for the Village.

Capital Improvement Fire Department Fund – This fund receives a share of income tax receipts to pay for various improvements and new equipment for the fire department.

5. 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.

Wastewater Plant Construction Fund - This fund received monies from an Ohio Public Works Commission loan for the renovation and update of the wastewater plant

Wastewater Plant Construction Design Fund – This fund received monies from an Ohio Public Works Commission loan for the design of the wastewater plant.

6. Fiduciary Funds

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

Library Funds - The private purpose trust funds are maintained for the benefit of the Village of Botkins library.

E. Budgetary Process

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

VILLAGE OF BOTKINS
SHELBY COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations

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

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 re-appropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

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

F. Fund Balance

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

1. Non-spendable

The Village classifies assets as *non-spendable* 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.

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The carrying amount of deposits at December 31 was as follows:

	<u>2012</u>	<u>2011</u>
Demand deposits	\$ 329,756	\$ 260,945
Certificates of deposit	20,000	20,000
Money market savings	1,694,344	1,688,668
Total deposits	<u>\$2,044,100</u>	<u>\$1,969,613</u>

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

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

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	\$ 518,200	\$ 615,901	\$ 97,701
Special Revenue	85,287	94,993	9,706
Capital Projects	185,500	451,273	265,773
Enterprise	534,217	622,228	88,011
Fiduciary	110	140	30
Total	<u>\$1,323,314</u>	<u>\$1,784,535</u>	<u>\$461,221</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 805,749	\$ 550,985	\$ 254,764
Special Revenue	157,151	128,408	28,743
Capital Projects	597,714	458,027	139,687
Enterprise	1,714,566	572,387	1,142,179
Fiduciary	17,747	241	17,506
Total	<u>\$3,292,927</u>	<u>\$1,710,048</u>	<u>\$1,582,879</u>

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 512,700	\$ 599,709	\$ 87,009
Special Revenue	78,989	86,262	7,273
Capital Projects	182,000	210,685	28,685
Enterprise	1,590,794	1,654,231	63,437
Fiduciary	110	156	46
Total	<u>\$2,364,593</u>	<u>\$2,551,043</u>	<u>\$186,450</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 790,514	\$ 589,975	\$ 200,539
Special Revenue	134,660	70,069	64,591
Debt Service	99	99	
Capital Projects	563,852	180,323	383,529
Enterprise	2,655,544	1,538,632	1,116,912
Fiduciary	17,932	341	17,591
Total	<u>\$4,162,601</u>	<u>\$2,379,439</u>	<u>\$1,783,162</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.

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

4. PROPERTY TAX (Continued)

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. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 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. The Village has a contract with the City of St. Marys to collect income tax on behalf of the Village.

6. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Note - Water Tower	\$ 155,445	3.00%
Ohio Water Development Authority Note - Water Treatment Plant Upgrade	340,917	2.84%
Ohio Water Development Authority Loan - Wastewater Treatment Plant Improvements	1,325,786	0%
Fire Truck Loan	216,939	1.78%
Total	<u>\$2,039,087</u>	

The Ohio Water Development Authority – Water Tower Note is a 15-year note requiring semi-annual payments of interest only of \$3,000 for the first 5 years and then semi-annual payments of principal and interest in the amount of \$11,650 thereafter. The original note was for \$200,007 with the first payment due January 1, 2006. The proceeds of this loan were used for water tower construction. This note is being paid by user charges from the Water Fund.

The Ohio Development Authority – Water Treatment Plant Upgrade Note is a 15 year note requiring semi-annual payments of principal and interest of \$20,599. The original note was for \$500,347 at 2.84% and the first payment was due January 1, 2008. The proceeds of this note were used for water treatment plant improvements. This note is being paid by user charges from the Water Fund.

The Ohio Water Development Authority- Water Treatment Plant Design & Construction loan is an interest free loan which builds in amount as the project progresses. The OWDA approved up to \$1,472,200 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$36,805 over 20 years. The scheduled payment amount below assumes that \$1,472,200 will be borrowed. The OWDA will adjust scheduled payment to reflect any revisions in amounts the Village actually borrows. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

6. DEBT (Continued)

The Fire Truck Loan is a 5 year note requiring semi-annual payments of principal and interest of \$25,191. The original note was issued for \$240,000 at 1.78% and the first payment was due October 17, 2012. The proceeds of this note were used for a 2010 Sutphen Custom Engine for the Volunteer Fire Department. This note is being paid from the Capital Projects fund.

The Village of Botkins issued a Health Care Facility Revenue Bond Series 2012 in 2012 with the principal amount of \$9,760,000 outstanding at December 31, 2012 for this bond issue. The 2012 bond issued was for a facility used by the Franciscan Care Center. The Village is not obligated in any way to pay debt charges on the bond from any of its funds, and therefore, it has been excluded entirely from the Village's debt presentation. There has not been and is not any condition of default under the bond or the related financing documents.

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

Year ending December 31:	OWDA Water Tower	OWDA WTP Upgrade	OWDA WWTP Improvements	Fire Truck Loan
2013	\$ 23,299	\$ 41,197	\$ 73,610	\$ 50,382
2014	23,299	41,197	73,610	50,382
2015	23,299	41,197	73,610	50,382
2016	23,299	41,197	73,610	50,382
2017	23,299	41,197	73,610	25,191
2018-2022	58,248	185,387	368,050	
2023-2028			368,050	
2029-2032			294,440	
Total	<u>\$174,743</u>	<u>\$391,372</u>	<u>\$1,398,590</u>	<u>\$226,719</u>

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.

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 Worker's Compensation.

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

8. RISK MANAGEMENT (Continued)

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, 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):

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

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 Village's share of these unpaid claims collectible in future years is approximately \$17,000.

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	
2012	2011
\$24,060	\$18,682

**VILLAGE OF BOTKINS
SHELBY COUNTY**

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

8. RISK MANAGEMENT (Continued)

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.

9. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 did not have an effect on fund balances previously reported.

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

Village of Botkins
Shelby County
210 South Mill Street
Botkins, Ohio 45306

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 Village of Botkins (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 April 26, 2013 wherein we noted the Village adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance and Governmental Fund Type Definitions* for the year ended December 31, 2011. We also noted the Village followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

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 2012-001 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-002

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

April 26, 2013

VILLAGE OF BOTKINS
SHELBY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-001

OPWC Grant Transactions Classification - Material Weakness

The Village received an Ohio Public Works Commission (OPWC) grant in 2011 in relation to the Waste Water Treatment Plant Construction project, which was paid directly to the contractor on behalf of the Village. The OPWC grant in the amount of \$176,132 was posted as a memo receipt and a memo expenditure within the Governmental Capital Projects fund, but should have been posted to the Sewer Enterprise Fund. The accompanying financial statements have been adjusted to reflect this Capital Projects fund activity as an Enterprise fund activity.

The failure to correctly classify financial activity in the accounting records and financial statements may impact a user's understanding of the financial operations, and may result in a material misstatement to the financial statements.

The Village should review its Chart of Accounts, which should be utilized to help determine the appropriate classifications.

Auditee's Response:

OPWC money will be received in 2013 and this note will be applied to receipt of those funds.

FINDING NUMBER 2012-002

Properly Certifying the Availability of Funds - Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of any appropriate fund free from any previous encumbrances. Every such 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.

- **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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. 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 that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

**FINDING NUMBER 2012-002
(Continued)**

- **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.
- **Super blanket certificate** – The Village may also make expenditures and contract 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 one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for eighteen out of twenty-five (72%) of disbursement transactions tested in 2012 and 2011. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

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 that purchase commitments receive prior approval. The Village’s Fiscal Officer should certify that the funds are or will be available prior to the obligation by the Village to improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations. When prior certification is not possible, “then and now” certification should be used.

Auditee’s Response:

The Village will more closely monitor expenditures to make sure that the purchases are properly certified.

**VILLAGE OF BOTKINS
SHELBY 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>
2010-01	Material Weakness – Accuracy of Financial Reporting	No	Partially Corrected, but repeating Material Weakness for incorrect postings as Finding 2012-001
2010-02	Ohio Rev. Code Section 5705.41(D) – failed to properly certify expenditures	No	Repeat as Finding 2012-002

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VILLAGE OF BOTKINS

SHELBY 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
MAY 23, 2013