



Dave Yost • Auditor of State

VILLAGE OF BUTLER
RICHLAND COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Butler
Richland County
P.O. Box 307
Butler, Ohio 44822

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Butler, Richland County, Ohio, (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 fair 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.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position 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 the Village of Butler, Richland County, Ohio, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village of Butler 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 March 29, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2013

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| | General | Special Revenue | Totals (Memorandum Only) |
|----------------------------------------------------------------|-----------------|--------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$25,019 | \$17,828 | \$42,847 |
| Municipal Income Tax | 95,974 | 23,993 | 119,967 |
| Intergovernmental | 64,832 | 65,588 | 130,420 |
| Fines, Licenses and Permits | 4,392 | | 4,392 |
| Earnings on Investments | 97 | | 97 |
| Miscellaneous | 6,379 | | 6,379 |
| <i>Total Cash Receipts</i> | <u>196,693</u> | <u>107,409</u> | <u>304,102</u> |
| Cash Disbursements | | | |
| Current: | | | |
| Security of Persons and Property | 68,570 | 679 | 69,249 |
| Public Health Services | | 1,850 | 1,850 |
| Leisure Time Activities | 4,201 | | 4,201 |
| Transportation | | 86,444 | 86,444 |
| General Government | 127,549 | 376 | 127,925 |
| Debt Service: | | | |
| Principal Retirement | 4,867 | | 4,867 |
| Interest and Fiscal Charges | 961 | | 961 |
| <i>Total Cash Disbursements</i> | <u>206,148</u> | <u>89,349</u> | <u>295,497</u> |
| <i>Excess of Cash Receipts Over (Under) Cash Disbursements</i> | <u>(9,455)</u> | <u>18,060</u> | <u>8,605</u> |
| Other Financing Disbursements | | | |
| Transfers Out | (7,000) | | (7,000) |
| <i>Net Change in Fund Cash Balances</i> | <u>(16,455)</u> | <u>18,060</u> | <u>1,605</u> |
| <i>Fund Cash Balances, January 1</i> | <u>39,596</u> | <u>95,337</u> | <u>134,933</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | | 113,397 | 113,397 |
| Unassigned | 23,141 | | 23,141 |
| <i>Fund Cash Balances, December 31</i> | <u>\$23,141</u> | <u>\$113,397</u> | <u>\$136,538</u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| | Proprietary Fund Type | Fiduciary Fund Type | Totals |
|-------------------------------------------|--------------------------|------------------------|-------------------------|
| | Enterprise | Agency | (Memorandum Only) |
| Operating Cash Receipts | | | |
| Charges for Services | \$233,563 | | \$233,563 |
| Fines, Licenses and Permits | | \$6,484 | 6,484 |
| <i>Total Operating Cash Receipts</i> | <u>233,563</u> | <u>6,484</u> | <u>240,047</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 61,657 | | 61,657 |
| Travel Transportation | 955 | | 955 |
| Contractual Services | 79,497 | | 79,497 |
| Supplies and Materials | 25,441 | | 25,441 |
| General Government | | 6,429 | 6,429 |
| <i>Total Operating Cash Disbursements</i> | <u>167,550</u> | <u>6,429</u> | <u>173,979</u> |
| <i>Operating Income</i> | <u>66,013</u> | <u>55</u> | <u>66,068</u> |
| Non-Operating Cash Disbursements | | | |
| Principal Retirement | (33,422) | | (33,422) |
| Interest and Other Fiscal Charges | (34,052) | | (34,052) |
| <i>Total Non-Operating Disbursements</i> | <u>(67,474)</u> | | <u>(67,474)</u> |
| <i>Income (Loss) before Transfers</i> | <u>(1,461)</u> | <u>55</u> | <u>(1,406)</u> |
| Transfers In | 7,000 | | 7,000 |
| <i>Net Change in Fund Cash Balances</i> | <u>5,539</u> | <u>55</u> | <u>5,594</u> |
| <i>Fund Cash Balances, January 1</i> | <u>199,522</u> | | <u>199,522</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$205,061</u></u> | <u><u>\$55</u></u> | <u><u>\$205,116</u></u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| | General | Special Revenue | Totals (Memorandum Only) |
|----------------------------------------------------------------|------------------------|------------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$25,999 | \$18,524 | \$44,523 |
| Municipal Income Tax | 101,183 | 25,296 | 126,479 |
| Intergovernmental | 41,607 | 67,005 | 108,612 |
| Fines, Licenses and Permits | 7,453 | 100 | 7,553 |
| Earnings on Investments | 111 | 1 | 112 |
| Miscellaneous | 7,298 | | 7,298 |
| <i>Total Cash Receipts</i> | <u>183,651</u> | <u>110,926</u> | <u>294,577</u> |
| Cash Disbursements | | | |
| Current: | | | |
| Security of Persons and Property | 84,656 | 351 | 85,007 |
| Public Health Services | | 1,983 | 1,983 |
| Leisure Time Activities | 495 | | 495 |
| Transportation | | 86,157 | 86,157 |
| General Government | 112,334 | 360 | 112,694 |
| Capital Outlay | 23,276 | | 23,276 |
| Debt Service: | | | |
| Principal Retirement | 4,292 | | 4,292 |
| Interest and Fiscal Charges | 1,050 | | 1,050 |
| <i>Total Cash Disbursements</i> | <u>226,103</u> | <u>88,851</u> | <u>314,954</u> |
| <i>Excess of Cash Receipts Over (Under) Cash Disbursements</i> | <u>(42,452)</u> | <u>22,075</u> | <u>(20,377)</u> |
| Other Financing Receipts | | | |
| Loan Proceeds | 25,776 | | 25,776 |
| <i>Net Change in Fund Cash Balances</i> | (16,676) | 22,075 | 5,399 |
| <i>Fund Cash Balances, January 1</i> | <u>56,272</u> | <u>73,262</u> | <u>129,534</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | | 95,337 | 95,337 |
| Unassigned | 39,596 | | 39,596 |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$39,596</u></u> | <u><u>\$95,337</u></u> | <u><u>\$134,933</u></u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| | Proprietary Fund Type | Fiduciary Fund Type | Totals |
|---------------------------------------------------------------|--------------------------|------------------------|----------------------|
| | Enterprise | Agency | (Memorandum Only) |
| Operating Cash Receipts | | | |
| Charges for Services | \$239,089 | | \$239,089 |
| Fines, Licenses and Permits | | \$10,051 | 10,051 |
| <i>Total Operating Cash Receipts</i> | <u>239,089</u> | <u>10,051</u> | <u>249,140</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 80,149 | | 80,149 |
| Travel Transportation | 604 | | 604 |
| Contractual Services | 90,224 | | 90,224 |
| Supplies and Materials | 43,305 | | 43,305 |
| General Government | | 11,461 | 11,461 |
| <i>Total Operating Cash Disbursements</i> | <u>214,282</u> | <u>11,461</u> | <u>225,743</u> |
| <i>Operating Income (Loss)</i> | <u>24,807</u> | <u>(1,410)</u> | <u>23,397</u> |
| Non-Operating Cash Receipts (Cash Disbursements) | | | |
| Intergovernmental | 300,260 | | 300,260 |
| Earnings on Investments | 9 | | 9 |
| Loan Proceeds | 332,699 | | 332,699 |
| Capital Outlay | (606,501) | | (606,501) |
| Principal Retirement | (20,624) | | (20,624) |
| Interest and Other Fiscal Charges | (16,351) | | (16,351) |
| <i>Total Non-Operating Cash Receipts (Cash Disbursements)</i> | <u>(10,508)</u> | | <u>(10,508)</u> |
| <i>Income (Loss) before Transfers</i> | 14,299 | (1,410) | 12,889 |
| Transfers In | 10,668 | | 10,668 |
| Transfers Out | (10,668) | | (10,668) |
| <i>Net Change in Fund Cash Balances</i> | 14,299 | (1,410) | 12,889 |
| <i>Fund Cash Balances, January 1</i> | <u>185,223</u> | <u>1,410</u> | <u>186,633</u> |
| <i>Fund Cash Balances, December 31</i> | <u>\$199,522</u> | <u>\$0</u> | <u>\$199,522</u> |

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, 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 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 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

The Village has no investments. Cash consists of demand deposits and savings accounts.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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 that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

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

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. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits

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

| | 2012 | 2011 |
|------------------------------------------------|-----------|-----------|
| Demand deposits | \$172,482 | \$163,378 |
| Other time deposits (savings and NOW accounts) | 169,172 | 171,077 |
| Total deposits | \$341,654 | \$334,455 |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. Budgetary Activity

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

| 2012 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$212,507 | \$196,693 | (\$15,814) |
| Special Revenue | 73,245 | 107,409 | 34,164 |
| Enterprise | 194,473 | 240,563 | 46,090 |
| Total | \$480,225 | \$544,665 | \$64,440 |

| 2012 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|-------------------------------------------------------|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$262,625 | \$213,148 | \$49,477 |
| Special Revenue | 102,000 | 89,349 | 12,651 |
| Enterprise | 246,375 | 235,024 | 11,351 |
| Total | \$611,000 | \$537,521 | \$73,479 |

| 2011 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$212,507 | \$209,427 | (\$3,080) |
| Special Revenue | 73,245 | 110,926 | 37,681 |
| Enterprise | 248,278 | 882,725 | 634,447 |
| Total | \$534,030 | \$1,203,078 | \$669,048 |

| 2011 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|-------------------------------------------------------|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$237,840 | \$226,103 | \$11,737 |
| Special Revenue | 97,483 | 88,851 | 8,632 |
| Enterprise | 276,002 | 868,426 | (592,424) |
| Total | \$611,325 | \$1,183,380 | (\$572,055) |

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2012 and 2011.

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.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

4. Property Tax

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

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

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

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, 2012 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|------------------------------------------|-------------------------|----------------------|
| Ohio Public Works Commission Loan - 2004 | \$18,553 | 0.00% |
| Ohio Public Works Commission Loan - 2008 | 43,178 | 0.00% |
| Ohio Public Works Commission Loan - 2010 | 35,319 | 0.00% |
| OWDA Loan - Elevated Water Storage Tank | 721,198 | 3.86% |
| Police Cruiser Loan | 16,618 | 4.99% |
| Waterline Extension Bonds | <u>52,968</u> | 5.50% |
| Total | <u><u>\$887,834</u></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 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.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

6. Debt (Continued)

The Ohio Public Works Commission Loan – 2010 was entered into to finance the manhole rehabilitation project. The project was started and completed in 2011. This loan will be repaid in semi-annual installments of \$929, with no interest through July 2031. 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 water storage tank. The project was completed in 2011. The total amount of the project was \$808,245 (as of December 31, 2012, \$743,401 has been disbursed with \$64,844 undisbursed) to be repaid in semi-annual installments of \$22,859 through January 2041, with an interest rate of 3.86%. The loan is collateralized by the Village’s taxing authority.

The Police Cruiser Loan was entered into in February 2011 for the purpose of obtaining a police cruiser for use in the Police department. The loan will be repaid in monthly installments of \$487 through January 2016, with an interest rate of 4.99%. The loan is collateralized by the police cruiser.

The Waterline Extension Bonds were entered into in October 2011 for the purpose of extending water and wastewater lines to Resort Drive. The bonds will be repaid in monthly installments of \$1,280 through October 2016, with an interest rate of 5.50%. The loan will be collateralized by the Village’s taxing authority.

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

| Year ending December 31: | OPWC Loan - 2004 | OPWC Loan - 2008 | OPWC Loan - 2010 | OWDA Loan - Water Tank | Police Cruiser Loan | Waterline Extension Bonds |
|--------------------------|------------------------|------------------------|------------------------|---------------------------|---------------------------|---------------------------------|
| 2013 | \$1,546 | \$2,617 | \$1,859 | \$45,718 | \$5,828 | \$15,360 |
| 2014 | 1,546 | 2,617 | 1,859 | 45,718 | 5,828 | 15,360 |
| 2015 | 1,546 | 2,617 | 1,859 | 45,718 | 5,828 | 15,360 |
| 2016 | 1,546 | 2,617 | 1,859 | 45,718 | 485 | 12,800 |
| 2017 | 1,546 | 2,617 | 1,859 | 45,718 | | |
| 2018-2022 | 7,731 | 13,085 | 9,295 | 228,592 | | |
| 2023-2027 | 3,092 | 13,085 | 9,295 | 228,592 | | |
| 2028-2032 | | 3,923 | 7,434 | 228,592 | | |
| 2033-2037 | | | | 228,592 | | |
| 2038-2041 | | | | 160,014 | | |
| Total | <u>\$18,553</u> | <u>\$43,178</u> | <u>\$35,319</u> | <u>\$1,302,972</u> | <u>\$17,969</u> | <u>\$58,880</u> |

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

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 this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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 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, 2010 (the latest information available), PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

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

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

8. Risk Management (Continued)

At December 31, 2011 and 2010 (the latest information available), 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 (the latest information available), respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$5,000.

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

| <u>2012</u> | <u>2011</u> |
|--------------------|--------------------|
| \$5,703 | \$6,821 |

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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Dave Yost • Auditor of State

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

Village of Butler
Richland County
P.O. Box 307
Butler, Ohio 44822

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Butler, Richland County, Ohio, (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 March 29, 2013 wherein we noted the Village followed a special purpose framework the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted Governmental Accounting Standards Board Statement No. 54.

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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 findings 2012-001, 2012-003 and 2012-004 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 and 2012-002.

Village's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2013

VILLAGE OF BUTLER
RICHLAND 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 and OWDA Transactions

Material Weakness/Noncompliance

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 2011, the Ohio Water Development Authority (OWDA) expended \$228,521 and the Ohio Public Works Commission (OPWC) expended \$337,438 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 and OPWC on-behalf moneys were recognized as receipts and disbursements in the Village's accounting records, thus understating their enterprise funds' intergovernmental and loan proceeds receipts and capital outlay 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 this grant is 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 Village Assistant Fiscal Officer is aware of the requirements and will make sure the paperwork is received to her in a timely manner.

FINDING NUMBER 2012-002

Certification

Noncompliance

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.

FINDING NUMBER 2012-002 (Continued)

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.

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.

None of the expenditures tested were 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 Assistant Fiscal Officer is aware of the requirements and is in the process of working with the software company to get the right certificates.

FINDING NUMBER 2012-003

Transaction Posting

Material Weakness

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

- In 2012 and 2011, General Fund property tax receipts were overstated \$43,762 and \$5,799, respectively, due to certain intergovernmental receipts being posted as taxes. It was also noted taxes were posted net instead of gross. In addition, in 2012 and 2011, the General Fund and Street Fund's intergovernmental receipts were understated \$40,255 and \$3,507, respectively, for 2012 and \$3,942 and \$3,697, respectively, for 2011, due to not always allocating the receipt to the correct fund and not posting to the correct line item. These amounts were adjusted to the financial statements.
- In 2012 and 2011, principal and interest disbursements of \$27,210 and \$19,431, respectively, were incorrectly posted to several funds' contract services, capital outlay, or transfers-out disbursement line items. In addition, in 2012 and 2011, interest disbursements of \$30,775 and \$15,599, respectively, were incorrectly posted to the Enterprise Fund's principal disbursement line item. These amounts were adjusted to the financial statements.
- In 2012 and 2011, General Fund income tax receipts of \$72,151 and \$72,929, respectively, and Special Revenue Fund income tax receipts of \$24,050 and \$27,515, respectively, were posted as transfers-in. Additionally, income tax receipts were not allocated in accordance with the Village's ordinance. These amounts were adjusted to the financial statements.
- In 2012 and 2011, General Fund fines, licenses, and permits of \$4,262 and \$7,383, respectively, were incorrectly posted to the Mayor's Court Agency Fund and transfers-in, respectively. These amounts were adjusted to the financial statements.
- In 2012 and 2011, Water Fund fees of \$3,700 and \$11,000, respectively, required by Village Ordinance to be moved to the Water Improvement Fund, were incorrectly posted as Water Fund transfers-out and a reduction to transfers-in, respectively, instead of as a reduction of water fees. In addition, in 2011, \$19,524 of the amount required to be moved to the Water Improvement Fund was incorrectly posted to the PFX Water Improvement Fund and \$7,333 was incorrectly posted to the General Fund. These amounts were adjusted to the financial statements.
- In 2012, General Fund transfers-out of \$7,000 was incorrectly posted as a reduction of tax receipts rather than a transfer-out and the Sewer Fund transfer-in was incorrectly posted as a reduction to contract services disbursements. In 2011, \$22,859 was incorrectly transferred to the General Fund instead of the Water Improvement Fund. In addition, \$47,130 of disbursements was incorrectly posted as transfers-out instead of capital outlay and contract services disbursements. These amounts were adjusted to the financial statements.
- In 2011, General Fund loan proceeds of \$25,776 were not recorded on the Village's books and Water and Sewer Fund loan proceeds of \$67,000 were recorded as transfers-in. These amounts were adjusted to the financial statements.
- In 2012, three checks were written with a different vendor name on the check compared to the check register. In 2011, a check for \$1,989 was written and cleared the bank, but was never posted to the Village's books. In addition, two checks were written to different vendors, but were recorded in the check register as one check.

FINDING NUMBER 2012-003 (Continued)

As a result of the aforementioned items, a net cash balance adjustment as of December 31, 2012, of (\$32,437) to the General Fund, \$5,097 to the Special Revenue Funds, \$30,192 to Enterprise Funds, and (\$4,207) to the Agency Fund was posted to the financial statements and Village's accounting records.

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 Assistant Fiscal Officer has made changes and will monitor more closely.

FINDING NUMBER 2012-004

Mayor's Court

Material Weakness

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.

For 2012, \$2,222 of receipts and \$6,429 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court Activity. For 2011, \$10,051 of receipts and \$11,461 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court activity.

Officials' Response: New line items are being done for the general fund and will be adjusted.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2010-001 | Ohio Rev. Code Section 5705.42 – The Village did not record OWDA or OPWC monies paid on the Village’s behalf. | No | Not Corrected. See Finding Number 2012-001. |
| 2010-002 | Ohio Rev. Code Section 5705.41(D) – The Village did not certify funds prior to incurring the obligation. | No | Not Corrected. See Finding Number 2012-002. |
| 2010-003 | Ohio Rev. Code Section 5705.41(B) – The Village had various funds with expenditures exceeding appropriations. | Finding No Longer Valid | Finding No Longer Valid. |
| 2010-004 | 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 2012-004. |
| 2010-005 | Transaction Posting (Material Weakness) – Various receipts and disbursements were recorded incorrectly. | No | Not Corrected. See Finding Number 2012-003. |
| 2010-006 | 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 comment in Management Letter. |

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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
APRIL 23, 2013