



**Mary Taylor, CPA**  
Auditor of State



VILLAGE OF BUTLER  
RICHLAND COUNTY

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Mary Taylor, CPA  
Auditor of State

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

To the Village Council:

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

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

April 22, 2009

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Butler, Richland County, Ohio, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Mary Taylor, CPA**  
Auditor of State

April 22, 2009

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$26,858		\$26,858
Municipal Income Tax	115,311		115,311
Intergovernmental	121,129	\$76,463	197,592
Fines, Licenses and Permits	10,633		10,633
Earnings on Investments	4,000	174	4,174
Miscellaneous	748	166	914
	<u>278,679</u>	<u>76,803</u>	<u>355,482</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	73,217		73,217
Public Health Services		1,001	1,001
Leisure Time Activities	2,130		2,130
Community Environment	248		248
Transportation		70,061	70,061
General Government	130,575		130,575
	<u>206,170</u>	<u>71,062</u>	<u>277,232</u>
Total Cash Receipts Over Cash Disbursements	<u>72,509</u>	<u>5,741</u>	<u>78,250</u>
Fund Cash Balances, January 1	<u>15,931</u>	<u>43,291</u>	<u>59,222</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$88,440</u></u></b>	<b><u><u>\$49,032</u></u></b>	<b><u><u>\$137,472</u></u></b>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$214,160		\$214,160
Fines, Licenses and Permits		\$6,763	\$6,763
Total Operating Cash Receipts	<u>214,160</u>	<u>6,763</u>	<u>220,923</u>
<b>Operating Cash Disbursements:</b>			
General Government		6,479	6,479
Personal Services	78,565		78,565
Travel Transportation	485		485
Contractual Services	65,226		65,226
Supplies and Materials	21,742		21,742
Total Operating Cash Disbursements	<u>166,018</u>	<u>6,479</u>	<u>172,497</u>
Operating Income	<u>48,142</u>	<u>284</u>	<u>48,426</u>
<b>Non-Operating Cash Disbursements:</b>			
Capital Outlay	18,031		18,031
Redemption of Principal	11,074		11,074
Interest and Other Fiscal Charges	1,690		1,690
Total Non-Operating Cash Disbursements	<u>30,795</u>	<u>0</u>	<u>30,795</u>
Net Cash Receipts Over Cash Disbursements	17,347	284	17,631
Fund Cash Balances, January 1	<u>105,537</u>	<u>0</u>	<u>105,537</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$122,884</u></b>	<b><u>\$284</u></b>	<b><u>\$123,168</u></b>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$31,607		\$31,607
Municipal Income Tax	118,272		118,272
Intergovernmental	47,030	\$76,123	123,153
Fines, Licenses and Permits	10,174		10,174
Earnings on Investments	6,923	732	7,655
Miscellaneous	2,160		2,160
	<u>216,166</u>	<u>76,855</u>	<u>293,021</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	69,345		69,345
Public Health Services		1,150	1,150
Leisure Time Activities	2,113		2,113
Community Environment	1,394		1,394
Transportation		94,673	94,673
General Government	137,499		137,499
	<u>210,351</u>	<u>95,823</u>	<u>306,174</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>5,815</u>	<u>(18,968)</u>	<u>(13,153)</u>
<b>Other Financing Receipts:</b>			
Sale of Assets		4,310	4,310
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	5,815	(14,658)	(8,843)
Fund Cash Balances, January 1	<u>10,116</u>	<u>57,949</u>	<u>68,065</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$15,931</u></b>	<b><u>\$43,291</u></b>	<b><u>\$59,222</u></b>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$189,106		\$189,106
Fines, Licenses and Permits		\$6,373	\$6,373
Total Operating Cash Receipts	<u>189,106</u>	<u>6,373</u>	<u>195,479</u>
<b>Operating Cash Disbursements:</b>			
General Government		6,671	6,671
Personal Services	73,064		73,064
Travel Transportation	1,266		1,266
Contractual Services	125,884		125,884
Supplies and Materials	38,614		38,614
Total Operating Cash Disbursements	<u>238,828</u>	<u>6,671</u>	<u>245,499</u>
Operating Loss	<u>(49,722)</u>	<u>(298)</u>	<u>(50,020)</u>
<b>Non-Operating Cash Receipts:</b>			
Intergovernmental	41,735		41,735
OPWC Loan Proceeds	3,200		3,200
Total Non-Operating Cash Receipts	<u>44,935</u>	<u>0</u>	<u>44,935</u>
<b>Non-Operating Cash Disbursements:</b>			
Capital Outlay	10,000		10,000
Redemption of Principal	9,328		9,328
Interest and Other Fiscal Charges	2,086		2,086
Total Non-Operating Cash Disbursements	<u>21,414</u>	<u>0</u>	<u>21,414</u>
Net Cash Receipts Under Cash Disbursements	(26,201)	(298)	(26,499)
Fund Cash Balances, January 1	<u>131,738</u>	<u>298</u>	<u>132,036</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$105,537</u></u></b>	<b><u><u>\$0</u></u></b>	<b><u><u>\$105,537</u></u></b>

*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, 2008 AND 2007**

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

**B. Accounting Basis**

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

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

**C. Deposits and Investments**

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. Enterprise Funds

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

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

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

4. Fiduciary Fund

Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for its Mayor's Court which receives money from fines and forfeitures.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

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

**E. Budgetary Process (Continued)**

**3. Encumbrances**

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

A summary of 2008 and 2007 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

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

**2. Equity in Pooled Deposits and Investments**

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

	2008	2007
Demand deposits	\$115,942	\$14,067
Certificates of deposit	35,630	148,620
Other time deposits (savings and NOW accounts)	109,068	2,072
Total deposits	\$260,640	\$164,759

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

**3. Budgetary Activity**

Budgetary activity for the years ended December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$210,294	\$278,679	\$68,385
Special Revenue	89,729	76,803	(12,926)
Enterprise	219,307	214,160	(5,147)
Total	\$519,330	\$569,642	\$50,312

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**3. Budgetary Activity (Continued)**

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$221,374	\$206,170	\$15,204
Special Revenue	78,271	71,062	7,209
Enterprise	232,401	196,813	35,588
Total	\$532,046	\$474,045	\$58,001

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$164,720	\$216,166	\$51,446
Special Revenue	59,844	81,165	21,321
Enterprise	221,481	234,041	12,560
Total	\$446,045	\$531,372	\$85,327

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$209,505	\$210,351	(\$846)
Special Revenue	96,292	95,823	469
Enterprise	227,900	260,242	(32,342)
Total	\$533,697	\$566,416	(\$32,719)

**Noncompliance:**

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2008 and 2007.

Contrary to Ohio Rev. Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in three funds at December 31, 2008 and in two funds at December 31, 2007.

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

Contrary to Ohio Rev. Code Section 117.38, the Village did not file accurate and complete financial statements with the Auditor of State.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(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, 2008 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan - 2004	\$24,738	0.00%
Truck Loan	25,108	5.55%
Ohio Public Works Commission Loan - 2008	51,028	0.00%
Total	\$100,874	

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

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

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**6. Debt (Continued)**

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

Year ending December 31:	OPWC Loan - 2004	Truck Loan	OPWC Loan - 2008
2009	\$1,546	\$9,864	\$2,616
2010	1,546	9,864	2,616
2011	1,546	7,398	2,616
2012	1,546		2,616
2013	1,546		2,616
2014-2018	7,731		13,080
2019-2023	7,731		13,080
2024-2028	1,546		11,788
Total	<u>\$24,738</u>	<u>\$27,126</u>	<u>\$51,028</u>

**7. Retirement System**

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

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 10 percent and 9.5 percent, respectively, of their gross salaries and the Village contributed an amount equaling 14 percent and 13.85 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

**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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$3,000,000 as noted above.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**8. Risk Management (Continued)**

Property Coverage

For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006 (the latest information available):

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$8,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)

8. Risk Management (Continued)

Contributions to PEP

2006	\$10,799
2007	11,235
2008	6,831

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



# Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated April 22, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

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

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

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

We consider findings 2008-003 through 2008-008 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding numbers 2008-004 through 2008-007 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated April 22, 2009.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2008-001 to 2008-004.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated April 22, 2009.

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

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



**Mary Taylor, CPA**  
Auditor of State

April 22, 2009

VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2008 AND 2007

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

FINDING NUMBER 2008-001

**Noncompliance Citation**

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

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

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

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

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

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

**FINDING NUMBER 2008-001 (Continued)**

**Noncompliance Citation (Continued)**

**Ohio Rev. Code Section 5705.41(D) (Continued)**

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.

**FINDING NUMBER 2008-002**

**Noncompliance Citation**

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

After the effects of adjustments made to the financial statements during our audit, December 31, 2008 and 2007, fund level expenditures exceeded appropriations as follows:

<b><u>2008</u></b>	<b><u>Appropriations</u></b>	<b><u>Expenditures</u></b>	<b><u>Difference</u></b>
<b><u>Special Revenue Fund:</u></b>			
Street Construction Maintenance and Repair Fund	\$47,000	\$53,549	(\$6,549)
<b><u>Enterprise Funds:</u></b>			
Water Fund	93,220	96,592	(3,372)
Storm Water Fund	0	707	(707)
<b><u>2007</u></b>			
General Fund	209,505	210,351	(846)
<b><u>Enterprise Fund:</u></b>			
Water Fund	94,100	130,852	(36,752)

In addition, at December 31, 2008 and 2007, the Village had object level expenditures exceeding appropriations in two line items and one line item, respectively.

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

### FINDING NUMBER 2008-003

#### Noncompliance Citation/Significant Deficiency

**Ohio Rev. Code Section 117.38** requires, in part, cash-basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end. These forms must be filed on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains unfiled, not to exceed \$750. The Auditor of State may provide waivers of these dates and penalties in certain circumstances.

The Village filed the 2008 and 2007 annual reports by the required date. However, the annual reports were not accurate or complete. Errors noted with the annual reports included, but were not limited to, the following:

- The annual reports included columns for Governmental Funds and Proprietary Funds with no information provided by fund or fund type.
- The annual reports did not have the correct receipt or disbursement amounts, and the amounts were not allocated to the various line items correctly.
- The columns for the Governmental Funds and Proprietary Funds were not completed. The Excess of Receipts Over/(Under) Disbursements was not completed, nor was there a beginning balance for either column. In addition, the Proprietary Funds column did not have an ending balance.

The Village should ensure the annual reports are complete and accurately supported by the Village's accounting records prior to filing them with the Auditor of State.

### FINDING NUMBER 2008-004

#### Noncompliance/Material Weakness

**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 2007, the Village received \$44,935 of Ohio Public Works Commission (OPWC) moneys for well repairs. Under the terms of this agreement, OPWC makes project payments directly to the vendor/contractor(s) on the Village's behalf. The Village did not recognize these revenues and expenditures in their general ledger, thus understating their revenues and expenditures. An adjustment was made to the financial statements to recognize these revenues and expenditures.

Any payments made on behalf of the Village by another party should be recorded by the Village as a revenue and expenditure. Failure to do so results in an understatement of revenues and expenditures. The Village should refer to Auditor of State Bulletin 2002-004 for additional guidance.

## **FINDING NUMBER 2008-005**

### **Material Weakness**

#### **Mayor's Court Procedures**

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.

Adjustments were made to the financial statements to reflect the Mayor's Court activity.

## **FINDING NUMBER 2008-006**

### **Material Weakness**

#### **Transaction Posting**

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

- In 2008, \$76,446 of estate tax revenue and in 2007, \$1,832 of public utility and CAT tax revenue were incorrectly posted to the General Fund's Tax Revenue rather than the Intergovernmental Revenue. The \$76,446 was adjusted to the financial statements. The \$1,832 was reported to management as an unadjusted item.
- In 2008 and 2007, \$5,160 and \$4,975, respectively, of the Village's portion of fines collected from Mayor's Court was incorrectly posted to the Mayor's Court Agency Fund instead of the General Fund's Fines, Licenses and Permits. In addition, \$53 and \$58, respectively, of Safety Town receipts were incorrectly posted to the General Fund's Miscellaneous Revenue rather than the General Fund's Fines, Licenses and Permits. These amounts were adjusted to the financial statements.
- In 2008 and 2007, \$5,085 and \$4,991, respectively, of franchise fees were incorrectly posted to the General Fund's Miscellaneous Revenue rather than Fines, Licenses and Permits; in 2008, \$150 of trash permits were incorrectly posted to the Street Construction Maintenance and Repair Fund's Miscellaneous Revenue rather than Fines, Licenses and Permits; in 2007, \$4,310 of proceeds from sale of assets was incorrectly posted to the Street Construction Maintenance and Repair Fund's Miscellaneous Revenue rather than Sale of Assets; and in 2008 \$1,270 of proceeds from sale of assets was incorrectly posted to the Water Fund's (\$635) and the Sewer Fund's (\$635) Charges for Services rather than Sale of Assets. The \$5,085, \$4,991, and \$4,310 were adjusted to the financial statements. The \$150 and \$1,270 were reported to management as unadjusted items.

### **FINDING NUMBER 2008-006 (Continued)**

#### **Material Weakness (Continued)**

##### **Transaction Posting (Continued)**

- In 2008 and 2007, \$590 and \$586, respectively, of Auditor and Treasurer fees associated with the collection of property taxes were not posted to the Village's ledgers. These amounts were reported to management as unadjusted items.
- In 2007, a net amount of \$32,701 of adjustments were made to agree the Village's beginning book balances to the December 31, 2006 audited ending balances. In addition, \$58 was adjusted to the General Fund expenditures to reconcile Village's December 31, 2007 cash to the bank balance. In 2008, \$1,441 was adjusted to the General Fund expenditures to reconcile Village's December 31, 2008 cash balance to the bank balance.
- In 2008 and 2007, \$12,764 and \$11,414, respectively, of principal and interest expenditures were incorrectly posted to the Water and Sewer Fund's contract services and capital outlay expenditure line items rather than debt service principal and interest expenditure line items. These amounts were adjusted to the financial statements.

The Village should review the Village Officer's Handbook and exercise due care when posting transactions to help ensure receipts and expenditures are posted to the correct fund and account. Additionally, the Village Council should review cash reconciliations and 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.

### **FINDING NUMBER 2008-007**

#### **Material Weakness**

##### **Accounting System**

Our testing revealed the following deficiencies with the Village's accounting system:

- The Revenue History Report and Budget History Report did not provide fund totals, only line item subtotals.
- The Village was unable to provide accurate computer generated trial balances. See Finding Number 2008-003 for errors noted with the computer generated annual reports.
- Expenditure transactions were entered into the system more than once, resulting in numerous dates for the same transaction and increasing the risk of errors. In addition, the fund and account information was manually entered on the checks, which also increases the risk of errors.
- There were variances between the year-to-date receipts and disbursements on the Y-T-D Fund Report and the detail Revenue History and Budget History reports. In 2007, receipts differed by \$13,269 and expenditures differed by \$58, and in 2008, expenditures differed by \$1,441.

### **FINDING NUMBER 2008-007 (Continued)**

#### **Material Weakness (Continued)**

##### **Accounting System (Continued)**

- There were various errors and irregularities in the ledgers' transactions. Budgetary adjustments were noted as transfers and included in the transaction column, but not in the year-to-date column. In addition, there was a transfer out posted to the Revenue History Report and was included as a positive number in the transaction column, but reduced the year-to-date column. Finally, there were various correcting entries made by the Village which removed the receipt from the books even though the amount was deposited in the bank.
- The Budget History Report had limited object codes, resulting in numerous types of transactions being posted as contract services.

The Village should review their accounting software to help ensure it is meeting the Village's needs and ensure it aids in proper accounting and reporting of the Village's activity. Additionally, person's operating the accounting software should be adequately trained to help ensure the system is utilized properly and to its full potential.

### **FINDING NUMBER 2008-008**

#### **Significant Deficiency**

##### **Budgetary Issues**

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

- The estimated resources from the Official Certificate of Estimated Resources were not entered on the Revenue History Report in the accounting system;
- The appropriations entered on the Budget History Report did not agree to the original appropriation ordinance plus amendments to appropriations;
  - There were several instances where items approved in the minutes as transfers were intended to be amendments to appropriations;
  - There were instances where approval of amended certificates were intended to be amendments to appropriations;

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

- The estimated resources from the Official Certificate of Estimated Resources should be entered into the accounting system as soon as the certificate is received from the County Auditor. This will help ensure the system accurately reflects budgeted receipts versus actual receipts;

**FINDING NUMBER 2008-008 (Continued)**

**Significant Deficiency (Continued)**

**Budgetary Issues (Continued)**

- The original appropriation ordinance and all amendments should be entered into the accounting system as soon as they are approved by Council. This will help ensure only Council approved appropriations and amendments are used to produce reports comparing budgeted appropriations versus actual disbursements;
- The budgetary actions approved by Council should be more specific and accurately reflect the Council's intent such as interfund transfers, appropriation amendments and certificate of estimated resources amendments.

**Officials' Response for 2008-001 through 2008-008:** Village of Butler understands the deficiencies and material weakness with the accounting procedures. At this time we are addressing these matters and have corrected some of the deficiencies. Further, we have implemented some of these policies and procedures and are currently working on others.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2006-001	Bank Reconciliations – The Village’s cash reconciliation at December 31, 2006 and 2005 had unreconciled variances.	Yes	Finding no longer valid.
2006-002	Receipt Posting – Various receipts were recorded incorrectly.	No	Not Corrected. See Finding Number 2008-006.
2006-003	Non-payroll Disbursements – There were several weaknesses noted in the processing and accounting for non-payroll related cash disbursements.	No	Partially Corrected. See Finding Number 2008-006.
2006-004	Mayor’s Court Procedures – The Village does not record the total activity for the Mayor’s Court on the Village’s books.	No	Not Corrected. See Finding Number 2008-005.
2006-005	ORC 117.38 – The Village’s annual report filed with the AOS was not within 60 days for FY 2005 and 2006 and 2005 contained numerous adjustments.	No	Not Corrected. See Finding Number 2008-003.
2006-006	ORC 5705.10 – The Village had a negative General Fund balance at December 31, 2005.	No	Partially corrected. Finding repeated as Management Letter comment.
2006-007	ORC 5705.41(B) – The Village had various funds with expenditures exceeding appropriations.	No	Not Corrected. See Finding Number 2008-002.
2006-008	ORC 5705.41(D) – The Village did not certify funds prior to incurring the obligation.	No	Not Corrected. See Finding Number 2008-001.
2006-009	ORC 5705.14, 5705.15, and 5705.16 – The Village made various inter-fund transfers not in accordance with the ORC.	Yes	Fully Corrected.
2006-010	ORC 5705.40 – The Village had weaknesses noted with amending appropriations.	No	Partially corrected. See Finding Number 2008-008.
2006-011	ORC 5705.42 – The Village did not record OPWC monies paid on the Village’s behalf.	No	Not Corrected. See Finding Number 2008-004.
2006-012	Village of Butler Ordinance 16-97 – The Village did not allocate two dollars per water bill to the water improvement fund.	Yes	Fully Corrected.



**Mary Taylor, CPA**  
Auditor of State

**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  
JUNE 30, 2009**